CRS Report for Congress

Intellectual Property Provisions of the NAFTA

Dorothy Schrader
American Law Division

January 21, 1994



The Congressional Research Service works exclusively for the Congress, conducting research, analyzing legislation, and providing information at the request of committees, Members, and their staffs.

The Service makes such research available, without partisan bias, in many forms including studies, reports, compilations, digests, and background briefings. Upon request, CRS assists committees in analyzing legislative proposals and issues, and in assessing the possible effects of these proposals and their alternatives. The Service's senior specialists and subject analysts are also available for personal consultations in their respective fields of expertise.

SUMMARY

This report surveys and analyzes the intellectual property provisions (Chapter 17) of the North American Free Trade Agreement ("NAFTA"). The Agreement among the United States, Canada and Mexico, which took effect January 1, 1994, is widely acknowledged as encompassing the highest level of intellectual property protection to be found in any international agreement. This high level protection is reflected both in the breadth of subject matter coverage (patents, trademarks, copyrights and related rights, trade secrets, program-carrying satellite signals, semiconductor integrated circuits, indications of geographic origin, and industrial designs) and in the nature of rights protected (e.g., computer software and sound recording rental in the field of copyright; right against unauthorized use of a patented process and against the use, sale, offer for sale, or importing of the direct product of the patented process; prohibition on dependent patent compulsory licensing except in cases of adjudicated violation of antitrust laws; the first international agreement explicitly to protect trade secrets; and pipeline protection for pharmaceutical and agricultural products that require testing and approval between the date of patent application and the actual marketing of the product).

Following a general summary of the intellectual property provisions of the NAFTA, this report examines in greater detail the provisions relating to each field of intellectual property.

TABLE OF CONTENTS

I. SUMMARY OF THE INTELLECTUAL PROPERTY PROVISIONS OF THE NORTH AMERICAN FREE TRADE AGREEMENT 1
- General Obligations 1
- National Treatment 3
- Existing Subject Matter 4

II. COPYRIGHT PROVISIONS OF THE NAFTA 6
- General Obligation 6
- Subject Matter Protection 7
- Exclusive Rights 7
- Contractual Freedom 8
- Term of Copyright 9
- Limitations on Rights 9
- Developing Country Exceptions 10
- Moral Rights 10
- Copyright Restoration for Mexican (or Canadian) Films 11
- Cultural Industries Exemption 13

III. SOUND RECORDING PROTECTION UNDER NAFTA 14
- Exclusive Rights 14
- Term of Protection 15
- Contractual Freedom 16
- Limitations on Rights 16
- Departure from National Treatment 16

IV. PROTECTION OF ENCRYPTED SATELLITE SIGNALS UNDER NAFTA 16

V. PROTECTION OF LAYOUT DESIGNS OF SEMICONDUCTOR INTEGRATED CIRCUITS UNDER NAFTA 17

VI. PROTECTION OF INDUSTRIAL DESIGNS UNDER NAFTA 19

VII. TRADEMARK PROTECTION UNDER NAFTA 21

VIII. PATENT PROTECTION UNDER NAFTA 24
- General Obligations 24
- Exclusions 25
- Basic Rights 25
- Limitations 25
- Non-discrimination against Technologies 26
- Assignability 26
- Compulsory Licensing 26
- Minimum Term 29

Burden of Proof-Process Patents 29
Patent Revocation 29
Protection of Pharmaceutical and Agricultural Chemicals 29
Amendment of U.S. Law 30

IX. TRADE SECRET PROTECTION UNDER NAFTA 30

X. PROTECTION OF GEOGRAPHICAL INDICATIONS UNDER NAFTA 32

"INTELLECTUAL PROPERTY PROVISIONS OF THE NAFTA"

I. SUMMARY OF THE INTELLECTUAL PROPERTY PROVISIONS OF THE NORTH AMERICAN FREE TRADE AGREEMENT

General Obligations

The intellectual property provisions of the NAFTA represent the highest levels of intellectual property protection embodied in any international agreement. Article 1701 sets the framework for this protection through three general obligations: (1) NAFTA countries must apply the national treatment principle [1] both with respect to the rights and enforcement of rights; (2) they must accord adequate and effective protection of intellectual property rights and enforcement of rights; and (3) they must, if not already bound, become bound or give effect to the substantive provisions of several international conventions (1971 Geneva Phonograms Convention;[2] 1971 Berne Convention;[3] 1967 Paris

---

[1] The national treatment principle is best understood in comparison with the principle of material reciprocity. International agreements relating to intellectual property are ordinarily premised on one of these two principles. National treatment means protection must be accorded the works of another country without discrimination as to nationality; Country A agrees to protect the works of Country B on the same basis as Country A protects its own nationals. If the agreement allows material reciprocity, Country A agrees to protect the works of Country B to the same extent as Country B protects the works of Country A. The NAFTA requires national treatment, except for the rights of performers in secondary uses of sound recordings.

[2] The Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, 1971 (Geneva Convention).

[3] The Berne Convention for the Protection of Literary and Artistic Works, 1971 (Berne Convention).

Convention;[4] and 1978 or 1991 New Varieties of Plants Convention),[5] as well as give effect to Chapter 17 of NAFTA.

In subject matter coverage, the NAFTA ranges across the entire field of intellectual property: patents, trademarks, copyright and related rights, trade secrets, program-carrying satellite signals, semiconductor integrated circuits, indications of geographic origin, and industrial design.

In specifying substantive rights and scope of protection, the general approach is to begin with the highest level multilateral rights convention and, building from that platform, add additional rights (the so-called "Berne-plus" rights regime, for example, in the case of copyright). The additional substantive rights and the detailed enforcement of rights provisions[6] are the crown jewels of the NAFTA intellectual property provisions.

The three NAFTA countries are bound already by the four multilateral intellectual property conventions that establish base-line protection, except that Mexico is not bound by either the 1978 or 1991 UPOV (New Varieties of Plants) Convention and Canada is not bound by the Phonograms Convention. Pursuant to Annex 1701.3, Mexico must comply with the substantive provisions of either the 1978 or 1991 UPOV Convention as soon as possible and no later than two years after signature of the Agreement. Since the Agreement was signed December 17, 1992, Mexico must comply by December 17, 1994. Even before Mexico is in a position to apply the UPOV substantive provisions, it must accept applications from plant breeders for varieties in all plant genera and species beginning with the date of entry into force of the Agreement, January 1, 1994. The effect is a longer pendency for such applications for the purpose of preserving the applicant's claim to novelty.

Although the three NAFTA countries are bound by the Berne Convention, which serves as the base-line Convention for copyright protection, the United States receives a special dispensation with respect to protection of moral rights. Pursuant to Annex 1701.3, the NAFTA confers no rights and imposes no obligations on the United States with respect to application of Article 6 *bis* of the Berne Convention, which establishes an obligation to protect authors against injuries to their rights of paternity (correct attribution of authorship) and integrity (right to object to prejudicial modifications of the work). The

---

[4] The Paris Convention for the Protection of Industrial Property, 1967 (Paris Convention).

[5] The International Convention for the Protection of New Varieties of Plants, 1978 (UPOV Convention), or the International Convention for the Protection of New Varieties of Plants, 1991 (UPOV Convention).

[6] For an analysis of the enforcement provisions relating to intellectual property, see a separate CRS Report for Congress by Dorothy Schrader, American Law Division, entitled "Enforcement of Intellectual Property Rights under the NAFTA." (forthcoming)

dispensation means that the United States' implementation of Article 6 *bis* of Berne is not subject to dispute settlement under the NAFTA.

The NAFTA countries may provide more extensive protection of intellectual property than that required by the NAFTA provided this protection is not inconsistent with an explicit provision of the NAFTA.[7] They may also provide remedies and controls against an abuse of intellectual property rights, if the abuse has an adverse effect on competition in the relevant market.[8]

National Treatment

The principle of national treatment or nondiscrimination against the foreigner forms the cornerstone of the copyright and patent multilateral conventions. Nevertheless, in recent years in the field of copyright, a tendency has emerged on the part of some countries (including members of the European Union) to justify or rationalize departures from national treatment in establishing new rights. The United States has vigorously opposed this tendency with limited success. The NAFTA represents one of our major successes. Article 1703 firmly establishes the obligation to extend national treatment protection both with respect to nature and scope of rights, and enforcement of rights.

Sound recordings are subject to a special regime, however, for two reasons: (1) Mexico adheres to the 1961 Rome Neighboring Rights Convention,[9] which allows reciprocity on several points; and (2) the United States does not extend federal protection to non-author performers and does not grant a public performance right in sound recordings. In recognition of this state of the law in Mexico and the United States, the NAFTA allows reciprocity with respect to the rights of performers in the case of "secondary uses," which are defined as direct uses for broadcasting or for any other public communications (i.e., public performances). This exception aside, the NAFTA countries must accord national treatment protection for rights in sound recordings.[10]

Formalities (such as notice of copyright, registration, deposit, place of publication or fixation, etc.) in order to acquire rights in copyright and related rights are prohibited.[11]

---

[7] NAFTA, Art. 1702.

[8] NAFTA, Art. 1704.

[9] The Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961).

[10] NAFTA, Art. 1703(1).

[11] NAFTA, Art. 1703(2).

A NAFTA country may derogate from national treatment to require a foreign national to designate for service of process an address in the territory of that country, or may require appointment of an agent in that country, provided that these procedural requirements are necessary to enforce an obligation of the NAFTA and are not a disguised restriction on trade.[12]

Existing Subject Matter

The NAFTA generally applies to all subject matter existing on the date of application of the Agreement that is protected in a Party or that meets the protection criteria of Chapter 17. Also, except for retroactive protection of Mexican motion pictures primarily (or Canadian motion pictures, in theory),[13] the NAFTA does not entail obligations for acts that occurred before the date of application of the relevant provisions of the Agreement for the Party in question.[14] This exception aside, no Party may be required to restore protection to subject matter that on the date of application of the NAFTA in the Party has fallen into its public domain.[15]

In the case of copyright subject matter, a Party's obligations to protect existing works shall be solely determined by Article 18 of the Berne Convention. This same article also governs the rights of record producers to enjoy protection of existing works,[16] even though, apart the NAFTA, Mexico would not ordinarily apply the Berne Convention to sound recordings (because Mexico accords sound recordings neighboring or related rights protection instead of copyright protection).

Pursuant to Annex 1705.7, the United States is obligated, subject to constitutional limitations and budgetary considerations, to restore copyright protection to motion pictures produced in Mexico or Canada and which fell into the United States public domain for failure to comply with the notice of copyright formality of our law in effect from January 1, 1978 until March 1,

---

[12] NAFTA, Art. 1703(3).

[13] The obligation of the United States, in Annex 1705.7, retroactively to protect certain motion pictures that entered the public domain of this country applies to motion pictures produced either in Mexico or Canada. In practice, the obligation will benefit Mexico, since virtually all motion pictures produced in Canada obtained United States copyright by compliance with the relevant formalities. Mexican film producers generally did not obtain United States copyright because they did not observe the notice formality of our law, in effect before March 1, 1989, the date of our adherence to the Berne Convention.

[14] NAFTA, Art. 1720(1).

[15] NAFTA, Art. 1720(3).

[16] NAFTA, Art. 1720(2).

1989. This exceptional obligation to resurrect copyright subject matter from the public domain creates a small window of opportunity to restore copyright protection primarily for Mexican motion pictures. Under the United States implementing legislation,[17] restoration can apply to the motion picture and to any works embodied in the motion picture (such as, the music in the soundtrack, pre-existing novels or screenplays). The window exists only for motion pictures produced in Canada or Mexico if protection was lost through failure to comply with the notice of copyright requirement in effect between January 1, 1978 and March 1, 1989. This means there is no obligation to restore protection to motion pictures published without notice before January 1, 1978 (of which there are thousands of Mexican films) nor in the case of the pre-1964 works which were not renewed[18] for the second term by registration with the Copyright Office during the last year of the first term of copyright.

The NAFTA omits any definition of "produced in another Party's territory," which is one of the criteria that determines eligibility for copyright restoration. The location of the headquarters of a motion picture production company frequently determines the nationality of the producer. It is in this sense that the bulk of United States motion pictures are "made in Hollywood," even though substantial parts of the production may have been filmed outside the United States. Annex 1705.7 should clearly apply to Mexican or Canadian motion pictures, where the headquarters of the production company is in Mexico or Canada. An interpretive issue may exist in the case of motion pictures actually

---

[17] North American Free Trade Agreement Implementation Act, Public Law 103-182, December 8, 1993 (hereafter, the "NAFTA Implementation Act" or the "Implementation Act").

[18] The United States copyright law in effect before January 1, 1978 divided the term of copyright into two twenty-eight year periods. In order to maintain the copyright for the second twenty-eight period, renewal registration had to be made for the work with the United States Copyright Office during the last year of the first term of copyright. Failure to renew meant the copyright expired at the end of the first twenty-eight year period. In 1992, Congress eliminated mandatory renewal registration when it passed the Copyright Renewal Act of 1992, Public Law 102-307, 106 Stat. 264 (June 26, 1992). Renewal registration became permissive; without renewal registration, the term is nevertheless extended by operation of the statute. This "automatic renewal" law applies to works that secured statutory copyright between January 1, 1964 and December 31, 1977. Since the NAFTA only requires restoration of copyright in motion pictures produced in Canada or Mexico and published without notice between January 1, 1978 and March 1, 1989, the NAFTA will not restore copyright in the thousands of pre-1964 Mexican films that entered the United States public domain through failure to make renewal registration to obtain the second term of copyright. (Works copyrighted January 1, 1978 or later enjoy a single, continuous term of copyright. For individually-authored works, the term is life of the author plus 50 years. For corporate or other works of which the author is unknown or where the work is published under a pseudonym, the term is 75 years from publication or 100 years from creation, whichever is shorter.)

filmed in Mexico or Canada by a non-Mexican or non-Canadian production company.

In deference to considerations of fairness and the potential constitutional issues under United States law, NAFTA countries may provide for the limitation of remedies as to continued performance of acts that become infringing under the NAFTA, and which were begun before the NAFTA enters into force or in respect of which a significant investment was made before the NAFTA enters into the force.[19]The right holder, in these cases, must be granted equitable remuneration.

In the case of commercial rental of computer programs and sound recordings, there is no obligation to apply this right to originals or copies of such works purchased prior to the date of application of NAFTA in that Party.[20]

With respect to the restrictions on compulsory licensing of patents and the prohibition on discrimination about a technology in issuing patents, there is no obligation to apply these provisions where a contrary authorization has been granted by the government before the text of the Draft Final Act of the GATT Uruguay Round became known.[21]

Finally, regarding existing subject matter where protection is conditioned on registration, applications already pending when the NAFTA becomes applicable to a Party shall be subject to amendment to allow a claim to any enhanced protection provided by the NAFTA. These amendments, however, shall not include claims in new matter that did not exist at the time the application was filed originally.[22] This provision has no relevance to copyright protection, since protection cannot be conditioned on registration. The provision might apply to patents, trademarks, geographical indications, industrial designs, and layout designs of semiconductor integrated circuits.

II. COPYRIGHT PROVISIONS OF THE NAFTA

General Obligation

The 1971 version of the Berne Convention for the Protection of Literary and Artistic Works (hereafter, "Berne Convention") serves as the base-line convention governing the general obligations of the NAFTA countries in the

---

[19] NAFTA, Art. 1720(4).

[20] NAFTA, Art. 1720(5).

[21] NAFTA, Art. 1720(6).

[22] NAFTA, Art. 1720(7).

field of copyright.[23] The Berne Convention obligations are supplemented by additional, explicit obligations especially with respect to computer programs and databases.

Subject Matter Protection

With respect to subject matter, Article 2 of the Berne Convention establishes base-line protection of literary and artistic works, including the works explicitly enumerated in that article. To these works, the NAFTA explicitly adds that computer programs are literary works and compilations of data must be protected if their selection or arrangement constitutes an intellectual creation.[24]

Exclusive Rights

With respect to the grant of rights, the NAFTA countries must provide the rights enumerated in the Berne Convention, except that the United States has no obligation under the NAFTA to apply Article 6 *bis* of Berne, pursuant to Annex 1701.3(2). This means any alleged failure by the United States to accord moral rights protection to Mexican or Canadian works cannot be subject to dispute settlement under the NAFTA (or trade retaliation).

Of the enumerated Berne rights, the NAFTA explicitly requires protection of the rights of importation; first public distribution of the original and each copy of a work by sale, rental, or otherwise; communication of a work to the public; and the commercial rental of the original or a copy of a computer program except where the copy is not an essential object of the rental.[25] Except for the right of communication to the public, there is an absence of certainty that these explicitly mentioned rights are minimum rights of the Berne

---

[23] Article 1705 of the NAFTA establishes the obligations relating to copyright subject matter.

[24] NAFTA, Art. 1705(1). The explicit recognition that computer programs are literary works and that original compilations of data must be protected represent two of the major copyright policy objectives of the United States. Given the technological leadership of the United States in the computer and database fields, the explicit obligations to protect this subject matter are highly important to the United States. In accordance with standard copyright policy, the obligation to protect an original compilation of data shall not extend to any uncopyrightable data or prejudice any copyright already subsisting in the component elements of the compilation. NAFTA, Art. 1705(1).

[25] NAFTA, Art. 1705(2). The commercial rental right of United States law as applied to computer programs is subject to terminate on October 1, 1997. The NAFTA obligates the United States to make permanent this rental right, but the Implementation Act does not address the issue because of complications relating to rental of videogames. Legislation must be passed before October 1, 1997.

Convention. The United States has contended that the Berne Convention covers all of these rights, subject to some hesitation about the commercial rental of computer programs after an authorized sale. The NAFTA puts these doubts to rest. The NAFTA countries will accord importation, first sale (all works), and commercial rental rights for computer programs. Although the NAFTA requires recognition of an importation right, it stops short of requiring protection against parallel importation (gray market products, that is, goods whose distribution is authorized by the right holder for certain countries but not for the country of importation). The NAFTA maintains a discreet silence on this issue and on any limits on the first sale doctrine (except to the extent commercial rental of computer programs[26] must be protected). The latter right applies only if the copy is the essential object of the rental. That is, there is no obligation to accord a software rental right to software contained in cars, microwave ovens, elevators, or other leased products that contain computer programs but which programs are not the real subject of the rental.

Contractual Freedom

The assurance of freedom of contract with respect to the economic rights granted under the copyright laws and related rights laws (so-called "neighboring rights") constitutes one of the signal achievements of the NAFTA.[27] The United States has argued vigorously for assurance of contractual freedom within the GATT, as well, but unlike the NAFTA, our arguments have been rejected in that forum. The NAFTA countries have agreed that any person holding economic rights in the nature of copyright or related rights by contract must be able to exercise the rights in his, her, or its own name. This contractual right explicitly applies to contracts of employment relating to the creation of works and sound recordings. (Although sound recordings generally are covered by a separate article of the NAFTA, Article 1705(3)'s contractual freedom clause applies to sound recordings.)

The contractual freedom clause potentially has great economic significance for United States rights holders. Many of our leading entertainment-copyright industries (motion pictures, television, and sound recordings) operate through work-for-hire agreements in the creation of copyrighted works. Under United States copyright law, the employer is frequently the author and first owner of copyright in a motion picture, television production, or sound recording. The copyright laws of most countries do not recognize the work-for-hire concept of United States law.

In most countries, the individual creator is the author and owner of copyright in almost all instances. Exceptions include journalistic works in many countries and the modified work for hire doctrine of other common law countries. In the United Kingdom, for example, the employer is frequently the

---

[26] Commercial rental of sound recordings is discussed later since it is controlled by Article 1706 of the NAFTA, not Article 1705.

[27] NAFTA, Art. 1705(3).

first owner of copyright but, since the employer is not considered an author, the term of copyright is measured from the life of the employee-creator. In the United States, individual creators are also the author and first owner of copyright in most categories of works other than motion pictures, television, sound recordings, and computer programs.

A trend has emerged in recent years in which members of the European Union have extended new rights (home video and audio taping compensation, for example) primarily to individual authors and only on a basis of reciprocity. The United States has attacked this trend and argued both for recognition of national treatment as the principle of international comity and for full recognition of contractual rights. Article 1705(3) of the NAFTA is the first time the United States has succeeded in obtaining full recognition of contractual rights in a "multilateral" (or at least trilateral) agreement.

Term of Copyright

The duration of copyright protection presented no negotiating problem since all three NAFTA countries are bound by the settled international standard of life of the author plus 50 years, as provided in the Berne Convention. If the term is not based on the life of a natural person, copyright must endure for 50 years from first publication, or, if the work is unpublished, 50 years from the making of the work.[28]

Limitations on Rights

Limitations on the rights provided for in Article 1705 must be justified on a general principle derived from Article 9(2) of the Berne Convention. Any limitations or exceptions to exclusive rights can only apply in "special cases" that do not conflict with normal exploitation of the work *and* do not unreasonably prejudice the legitimate interests of the right holder.[29] Under this principle, any significant commercial use of the work should be ineligible for one of the limitations or exceptions. Ordinary commercial use would surely either conflict with marketing of the work by the rights holder or would prejudice legitimate expectations of compensation for use of the work.

This general principle applies to noncommercial uses as well, but its vagueness probably makes the principle too imprecise to control exceptions for noncommercial purposes unless the deleterious effect of widespread use can be easily demonstrated. Berne Convention adherents have debated, for example, whether application of this principle to private home video or audio taping requires compensation for the rights holder. Certain Committees of Experts have concluded that this principle requires compensation for private home taping, but this conclusion is not accepted by all members of the European Union, for example. If private home taping were accepted as prejudicial to the

---

[28] NAFTA, Art. 1705(4).

[29] NAFTA, Art. 1705(5).

legitimate interests of the rights holder, those members of the European Union who enact domestic royalty systems to compensate for home taping could not refuse to give national treatment protection against home taping to United States authors. Since several countries in Europe do refuse national treatment protection against home taping, it seems clear that the general principle of Article 9)2) of Berne, which the NAFTA adopts, essentially provides a debating point about the scope of exceptions for noncommercial uses.

Nevertheless, this general brake on otherwise unlimited exceptions to rights represents a good compromise in an international instrument between silence on a matter of copyright policy and excessive, fractious detail. The language will control commercial uses and provides a negotiating point in the case of noncommercial uses.

Developing Country Exceptions

The 1971 Paris version of the Berne Convention contains an Appendix for Developing Countries. This Appendix emanated from the international copyright policy conflicts between developed and developing countries in the 1960's. With great reluctance, the western copyright exporting countries yielded to the combined pressure of the socialist bloc and the developing countries to establish special exceptions to exclusive rights that could be invoked by developing countries. These exceptions take the form of permission to engage in compulsory licensing with respect to translation and reproduction of works under certain conditions. In practice, the special exceptions of the Appendix for Developing Countries have been rarely invoked.

Mexico, as a developing country, could apply the Appendix, insofar as its Berne Convention obligations are concerned. Article 1705(6) of the NAFTA provides, however, that the Appendix may not be invoked where rights holders could meet the legitimate needs of a developing country market but are inhibited from supplying the market by obstacles created by the Party. The effect of this clause is more symbolic than practical. Mexico has not issued compulsory licenses under the authority of the Appendix for Developing Countries, but the NAFTA proviso creates a check on any inclination to engage in compulsory licensing. At the first hint of a compulsory license, another NAFTA Party could negotiate about barriers to the market that prevent rights holders from fulfilling the needs of the market.

Moral Rights

Article 6*bis* of the Berne Convention requires some protection of the so-called "moral rights" of the author, independent of the exercise of the economic rights. The minimum moral rights are the right of paternity (or attribution; that is, the right to have authorship correctly attributed) and the right of integrity (the right to object to modifications of the work prejudicial to the author's reputation). The United States originally adhered to the Berne Convention without enacting any federal moral rights protection. We contend that the minimum obligations of Article 6*bis* are satisfied by a combination of

federal trademark law, contract law, and state statutory and common law. In 1990, we enacted federal moral rights protection with respect to individually created visual artworks[30] (i.e., paintings, sculpture, limited edition graphic artworks other than designs of useful articles, and certain limited edition photographs). While other authors may seek additional federal moral rights legislation, they are opposed generally by producers and publishers of works in categories other than visual artworks.

Pursuant to Annex 1701.3(2), the United States incurs no obligations to extend moral rights protection to the NAFTA countries under the Agreement. This means that any alleged deficiency in moral rights protection by the United States cannot be the subject of dispute settlement under the NAFTA or of trade retaliation by a NAFTA country. This concession means that the United States can continue to emphasize the primacy of economic rights as the best approach to assuring the protection of the interests of authors.

Copyright Restoration for Mexican (or Canadian) Films

One of the major concessions made by the United States in the NAFTA negotiations appears in Annex 1705.7: the United States undertakes to allow recapture of copyright in certain motion pictures that fell into the public domain, to the extent recapture is consistent with our Constitution and subject to budgetary considerations. Restoration of copyright in works that have fallen into the public domain represents a rare departure from United States copyright tradition. (Restoration of copyright was allowed following World Wars I and II for certain works that initially lost copyright because of wartime conditions.)[31]

The Mexicans pressed for this provision in the NAFTA because a substantial number of their films fell into the United States public domain by publication without notice of copyright and there is a huge market for these films in California and the Southwestern region of the United States. That Spanish-speaking market, with its potentially huge video and television revenues, is lost to Mexican motion picture proprietors of these films but for the promise of copyright restoration negotiated in the NAFTA.

While this promise of copyright restoration is extraordinary under United States copyright tradition, it is fully consistent with Article 18 of the Berne Convention which encourages (and many would argue, mandates) special agreements to accord retroactive protection to works under copyright in their country of origin (here Mexico) but in the public domain in another country of the Berne Union (the United States).

---

[30] Visual Artists Rights Act of 1990, Public Law 101-650, Title VI, 104 Stat. 5089, 5128 (December 1, 1990).

[31] Act of December 18, 1919, 41 Stat. 368 (15 month window for World War I works); Act of September 25, 1941, 55 Stat. 732 (length of window to recapture copyrights set by individual Presidential Proclamation).

The window of opportunity for copyright restoration is very narrow. The obligation applies only to motion pictures and the works (such as music and screenplays) embodied in them. The motion picture must have been "produced" in Mexico or Canada, and published without notice of copyright between January 1, 1978 and March 1, 1989. There is no obligation to restore copyright in any motion picture published before 1978. Thus, the films of a popular artist such as Catinflas, which were published before 1978, are not subject to copyright restoration, if they fell into the United States public domain.

The restoration proviso applies to Canadian motion pictures potentially, but it is assumed that virtually all Canadian films already enjoy copyright in the United States. The difference in copyright status of Canadian and Mexican films can probably be explained by the closer business relationships between United States and Canadian producers-distributors, or in any case by the greater familiarity of the Canadians with United States copyright formalities.

Public Law 103-182, the North American Free Trade Agreement Implementation Act (effective December 8, 1993), implements the copyright restoration obligation in SEC.334. Within one year of the effective date of the NAFTA (January 1, 1994), owners of copyright who seek copyright restoration must file with the United States Copyright Office a statement of intent to have copyright protection restored. The Copyright Office will publish the list of motion pictures and works embodied therein in the *Federal Register*. To satisfy constitutional concerns and in the interest of fairness, copyright liability for sale, distribution, or performance of the motion picture does not arise until one year following the publication of the Federal Register list of restored copyrights, in the case of a United States national or domiciliary who made or acquired copies of the motion picture before December 8, 1993 (the effective date of the Implementation Act).

On the surface, the copyright restoration proviso seems fairly straightforward in its terms and application. Given the enormous market for Mexican films in California and the American Southwest, however, any ambiguities in the NAFTA or the implementing legislation may give rise to litigation. Copyright restoration in effect allows retroactive application of the copyright law. Retroactive application of any law tends to raise numerous interpretive issues, including some of constitutional dimensions. The nearly two-year respite from effective restoration of the copyrights in Mexican films is intended to satisfy any constitutional notions of due process or uncompensated takings. Future litigation will determine whether or not the Implementation Act assuages the constitutional concerns.

Any inconsistencies between the NAFTA text and the Implementation Act may also give rise to litigation. One such issue may relate to the identification of the motion pictures covered by the copyright restoration obligation. The NAFTA text applies to motion pictures "produced" in either Mexico or Canada. The Implementation Act applies to any motion picture "first fixed or published in the territory" of Mexico or Canada. A motion picture is fixed when its embodiment in a copy by authority of the right holder is sufficiently permanent

or stable to permit the film to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A motion picture is fixed, therefore, when the cinematographic expression is first embodied in a celluloid print, videotape, or other physical copy of that expression. Since any motion picture that is "produced" in Mexico or Canada is almost surely first fixed in Mexico or Canada, United States courts should not have any difficulty in applying the Implementation Act to restore copyright in Mexican-produced or Canadian-produced films. A question may arise, however, as to whether or not the Implementation Act allows copyright restoration in more films than those contemplated by the NAFTA. Query: Does the Implementation Act apply to films produced by United States nationals that are first fixed (or less likely to occur, first published) in Mexico or Canada?

Since virtually all United States nationals who produce films are knowledgeable about the formalities of our law, the number of any such films first fixed in Mexico or Canada and then published without notice of copyright is very small, if there are any.

Cultural Industries Exemption

One other provision of the NAFTA with potentially significant impact on copyright protection is not part of the intellectual property provisions of Chapter 17. The "cultural industries exemption," which was essentially part of the price of Canada's participation in the NAFTA, is set forth in Article 2106 and Annex 2106. The Article simply references the Annex, which in turn simply carries forward the exemption of Article 2005 of the United States-Canada Free Trade Agreement. The cultural industries exemption applies between Canada and the United States. If Canada invokes the exemption, however, the rights and obligations between Canada and another Party (now only Mexico) would be identical to those applying between Canada and the United States. As between Mexico and the United States, there is no cultural industries exemption.

The "cultural industries" are the print publishing, motion picture and video production, music publishing, music video and sound recording, radio and television (including cable and satellite) sectors of the economy. The cultural industries exemption allows Canada broad exceptions from the NAFTA's intellectual property provisions (affecting primarily copyright) in order to protect Canadian culture from domination by the United States. (The exemption also applies to the obligations under services and investments.) If invoked by Canada, the exceptions would probably not take the form of discrimination as to the nature of substantive rights and enforcement of those rights, since the Berne Convention and other conventions to which Canada is bound might prevent such discrimination. The exception would probably be applied to restrict access to the Canadian market through quotas on the percentage of foreign-produced motion pictures, sound recordings, music videos, and television productions that may be advertised or shown on Canadian television, for example.

The cultural industries exemption was strongly resisted by United States negotiators and bitterly opposed by the affected United States sectors of the economy. Its inclusion in the United States-Canada Free Trade Agreement, however, set the stage for its incorporation into the NAFTA. The weapon reserved by the United States is the right under the NAFTA to retaliate in the trade context against Canada, if the exemption is invoked.

Accordingly, SEC. 513 of the Implementation Act amends section 182 of the Trade Act of 1974 (19 U.S.C. section 2242) by adding a new subsection (f). The amendment requires the United States Trade Representative to identify within 30 days of the release of the annual National Trade Estimates Report on Foreign Trade Barriers, and any new Canadian law or practice affecting the cultural industries that is actionable under Article 2106 of the NAFTA. Any new law or practice applying the cultural industries exemption will become the subject of a section 301 Trade Act investigation, unless the United States has already taken retaliatory action.

III. SOUND RECORDING PROTECTION UNDER NAFTA

The United States is one of the significant *minority* of countries who protect sound recordings under the copyright law. Strong copyright protection for sound recordings exists under our law both with respect to exclusive rights (except that the right of public performance is withheld) and the term of protection (generally 75 years from publication).

Mexico adheres to the approach of the majority of countries in protecting sound recordings as a "related right," or a "neighboring right." Mexico adheres to the 1961 Rome Convention on the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations, which allows non-copyright protection for sound recordings and a minimum term of 20 years (usually from fixation or publication). The NAFTA reconciles these two approaches essentially in favor of the stronger system of copyright-like protection, without, of course, mandating that protection actually is required under the copyright law.

The base-line convention for the protection of sound recordings is the 1971 Geneva Phonograms Convention. The minimum obligations of that Convention are, however, substantially beefed-up by additional obligations of Article 1706 of the NAFTA.

Exclusive Rights

The record producer shall have the right to authorize or prohibit direct or indirect reproduction; importation of piratical copies; the first public distribution of the original and each copy by sale, rental, or otherwise; and the commercial rental of the original or a copy, except where expressly otherwise

provided by contract between the record producer and the authors of works fixed in the record.[32]

The right to prohibit indirect reproduction essentially represents an excess of caution to assure that any substantial copying or adaptation of the recording must be authorized by the record producer. United States interests sought to ensure that digital sampling or some other type of copying made possible by future technological developments would be covered by this right.

The obligation to bar importation of piratical copies is a modest one. The NAFTA stops short of the greater protection found in United States copyright law against the parallel importation of copies, whose making is authorized but whose distribution in a given territory is not authorized.

The right of first public distribution of copies is subject by silence to the "first sale doctrine," except with respect to commercial rentals. The authorized sale of a copy exhausts the right of public distribution with respect to that copy, except, in the case of sound recordings, for the commercial rental of the copy.[33] Before the NAFTA, United States law accorded a commercial rental right in sound recordings which was subject to sunset on October 1, 1997. SEC. 332 of the Implementation Act eliminates the sunset feature, making permanent the commercial rental right in sound recordings.

The NAFTA contains a somewhat curious proviso that the commercial rental right need not be extended to a record producer, if that right would be contrary to a contractual agreement between the record producer and the authors of the works fixed in the recording. The authors referred to would be lyricists or composers. The proviso, which merely confirms the contractual freedom of authors, was included to reassure Mexican interests that authors would have the right to consent to commercial rental of a recording containing their works.

Term of Protection

One of the signal achievements of the NAFTA is too lock into a treaty commitment the recent improvements in Mexico's protection of sound recordings. The minimum term of protection is codified as 50 years from the year of first fixation. As noted above, the minimum term under the 1961 Rome Convention to which Mexico adheres (but not the United States) is only 20 years.

---

[32] NAFTA, Art. 1706(1).

[33] *See also*, the earlier discussion of the commercial rental right as applied to computer programs, *supra* the text related to notes 25-26.

Contractual Freedom

Yet another signal achievement of the NAFTA is the obligation to assure freedom of contract with respect to sound recordings. This commitment is very important to the United States recording industry since the bulk of commercial recordings are works made-for-hire. See the earlier discussion of this issue under the copyright article.[34]

Limitations on Rights

Even though the NAFTA does not mandate copyright protection of sound recordings, the Parties accepted the copyright principle found in Article 9(2) of the Berne Convention to govern appropriate limitations or exceptions to the exclusive rights of record producers. Under Article 1706(3), limitations or exceptions are confined to "special cases" that do not conflict with normal exploitation of the sound recording and do not unreasonably prejudice the legitimate interests of the right holder. Since most sound recordings are commercial undertakings, this general principle works well to narrow the scope of permissible limitations on rights. As discussed in the analysis of the copyright article, however, the general limiting principle may not function well to inhibit limitations in the case of noncommercial use, including private home taping.[35]

Departure from National Treatment

Although the NAFTA generally requires national treatment with respect to rights and enforcement of rights, an exception is made in the case of "secondary uses" of sound recordings. The NAFTA allows reciprocity with respect to the rights of performers in the case of "secondary uses," which are defined as direct uses for broadcasting or for any other public communications--in essence, for public performance of the sound recording. This unusual (and to United States interests, unwelcome) concession to reciprocity reflects the facts that Mexico protects sound recordings under a neighboring rights theory and that the adequacy of federal protection of performers in the United States has been questioned by foreign associations representing performers. Record producers are entitled to national treatment.

IV. PROTECTION OF ENCRYPTED SATELLITE SIGNALS UNDER NAFTA

Article 1707 of the NAFTA sets out the obligations to protect encrypted program-carrying satellite signals. The obligations are set out without reference to any base-line convention. Both the United States and Mexico are already bound by the 1974 Brussels Satellite Convention, which establishes protection against unauthorized interception and distribution of program-carrying satellite

---

[34] See text associated with note 27, *supra*.

[35] See text associated with note 29, *supra*.

signals, whether or not they are encrypted. Canada is not a member, however. The NAFTA negotiators were able to reach agreement on obligations to protect against certain uses of encrypted satellite signals.

The obligation arises within one year after entry into force of the NAFTA, that is, by January 1, 1995.

The first obligation is to make it a criminal offense to manufacture, import, sell, lease, or otherwise make available a device to decode encrypted signals without the authorization of the distributor. The United States has legislated in this field under the communications law; several state statutes also make criminal the sale of unauthorized decoders.

The second obligation is to create civil remedies to receive or further distribute for commercial purposes an encrypted signal that has been decoded without authorization of the distributor, or to manufacture, import, sell, lease, or otherwise make available a decoder without the authorization of the distributor.

Any person who holds an interest in the content of the signal shall be permitted to bring a civil action to protect against these activities in connection with encrypted program-carrying satellite signals.

The one year delay in meeting these obligations is for the benefit of Canada, primarily. The United States law does not require amendment.

V. PROTECTION OF LAYOUT DESIGNS OF SEMICONDUCTOR INTEGRATED CIRCUITS UNDER NAFTA

In 1984, the United States enacted the first statutory protection for a new form of intellectual property, which we called "mask works." The topography or layout designs of semiconductor integrated circuits (also called "chip designs") more accurately describes the nature of the subject matter. This *sui generis* form of protection draws principles from copyright law and industrial property law governing designs of useful articles; the nature of protection is copyright-like, except that registration is mandatory within two years of commercial exploitation in order to establish the right.

Canada also enacted an integrated circuits layout design law a few years ago. Mexico, which has not enacted a layout design law, undertakes an obligation in NAFTA to enact such a law as soon as possible and in any event no later that January 1, 1998.[36] This commitment of Mexico to legislate "chip" protection is one of the major achievements of the NAFTA in the field of intellectual property.

---

[36] NAFTA, Annex 1710.9.

Article 1710 of the NAFTA establishes the obligations to protect "chip designs." The reference to a base-line convention in this case is most unusual. The approach is to adopt certain articles of the 1989 Washington Treaty on Intellectual Property in Respect of Integrated Circuits (hereafter, "1989 Washington Treaty"), reject other provisions of the Treaty, and substitute new provisions. In effect, we have the 1989 Washington Treaty -minus-and-plus. The Treaty has not in fact come into force (and United States policy opposes its coming into force because of the deficiencies of the Treaty). The United States and Japan, which in 1989 accounted for approximately 85% of the world's chip production, refused to sign the Final Act of the Treaty, and have remained united in their opposition to it. The deficiencies of the Treaty are highlighted by the additional obligations set out in Article 1710 of the NAFTA.

The NAFTA countries agree to protect layout designs of integrated circuits in accordance with Articles 2 through 7, 12 and 16(3) of the 1989 Washington Treaty except for Article 6(3). These provisions require each Party to make unlawful the unauthorized importation, sale, or other commercial distribution of a layout design, an integrated circuit incorporating a protected layout design, or an article incorporating such an integrated circuit.[37] The obligation to protect against importation of articles incorporating a protected design is an important clarification of the rights in the Washington Treaty.

Other "plus" provisions in the NAFTA adjust the obligation to compensate the right holder even in the case of "innocent infringement;" prohibit compulsory licensing; and fix a 10 year minimum term.

A defense of "innocent infringement" must be allowed if a person did not know and had no reasonable ground to know about the infringement when the person acquired copies of the protected integrated circuit or an article incorporating the integrated circuit. This defense is appropriate because a business person could easily purchase a product (a television, microwave oven, etc.) that has an infringing chip design without having any knowledge of the infringement. After the "innocent infringer" receives notice of the infringement, the person may dispose of stock on hand or on order, subject to payment to the right holder of an amount equivalent to a reasonable free market royalty.[38]

Compulsory licensing of layout designs of integrated circuits is flatly prohibited, thus avoiding forced transfer of technology.[39] The compulsory

---

[37] NAFTA, Art. 1710(2).

[38] NAFTA, Art. 1710(3)-(4).

[39] NAFTA, Art. 1710(5). Compulsory licensing means the government sets the terms and conditions for licensing the intellectual property instead of the rights holder. Usually, the rights holder is entitled to some remuneration, but the amount may be set at low levels by the government. Patent laws generally permit compulsory licensing for national security and possibly health and safety purposes. In the copyright field, compulsory licensing is very exceptional, but

licensing provision of the 1989 Washington Treaty constitutes probably the major objection by the United States to the Treaty. The United States felt there was no justification for compulsory licensing given the commercial nature of the product, the modest scope of protection (against copying), and the permissibility of legitimate reverse engineering to achieve a new chip design.

Consistent with United States and Canadian law, the NAFTA allows registration as a condition of protection. If registration is mandatory, the term is 10 years from either the date of filing for registration, or from the date of first commercial exploitation.[40] If registration is not a condition of protection, the term is 10 years from the date of first commercial exploitation. A Party may provide that protection lapses 15 years after creation of the layout design.[41]

In the NAFTA, the United States has achieved the level of protection it sought, but of which it fell short, in the 1989 Washington Treaty. The commitment of Mexico to this higher level of protection is especially important because Mexico was allied with the developing countries at the 1989 Washington Diplomatic Conference who blocked the effort to achieve what the United States considered appropriate levels of chip design protection in the multilateral context.

VI. PROTECTION OF INDUSTRIAL DESIGNS UNDER NAFTA

International protection of industrial designs is characterized by a lack of harmony in the level of protection, the basis of the protection, and the relevance of formalities. The 1967 Paris Convention deals with industrial designs that are novel and therefore subject to patenting. The 1971 Berne Convention provides that the artistic features of industrial designs may be protected by copyright for a minimum term of 25 years. The Hague Agreement concerning the International Deposit of Industrial Designs provides yet another avenue of protection--in effect, *sui generis* design protection. The United States is not a member of the Hague Agreement.

The United States protects novel useful designs under the design patent law and protects the separate and independent artistic features of useful articles under the copyright law as pictorial, graphic, or sculptural works. Many useful designs fail to enjoy either patent or copyright protection. To some extent, the trademark law has been interpreted to fill in the gap in protection partially by protecting the configuration of packages and containers. A bill to create a new

---

the laws of many countries apply compulsory licensing to cable retransmission of broadcasts and the mechanical reproduction of musical works (i.e., audio recordings). If compulsory licensing were allowed for chip designs, this would represent forced transfer of technology.

[40] NAFTA, Art. 1710(6).

[41] NAFTA, Art. 1710(7)-(8).

form of design protection (usually for 10 years and based on modified copyright principles) has been pending in virtually every Congress since 1914 (except for World War II and the immediate post-war era), but has failed to be enacted.

Given the lack of one harmonizing convention in the field of industrial design, the NAFTA makes no reference to any convention as forming the base-line principles of protection. Instead, Article 1713 simply sets forth a few basic principles with a fair degree of flexibility in meeting the minimum obligations. Each Party shall provide for the protection of independently created industrial designs that are new *or* original.[42] Since new or original designs are the object of protection, the NAFTA country may elect to grant protection under either the patent or copyright laws, or under a *sui generis* law.

Beyond the very general standards of new or original, the NAFTA does not seek to define the level of protection. As an option, a Party may provide that it will not consider designs new or original if they do not significantly differ from known designs or combinations of known design features. A Party also may deny protection to designs dictated essentially by technical or functional considerations.[43] Since no existing design law protects designs dictated by technical or functional considerations, the absence of an agreement to exclude such designs may simply mean the Parties did not have the time, or did not consider the issue important enough, to resolve any language differences in expressing the exclusion.

The basic right granted is the right to prevent the unauthorized making or selling of articles that copy or substantially copy the protected design for commercial purposes.[44]

Textile designs are singled out for special care, however. The Parties have the option of requiring registration as a condition of protection. They shall, however, ensure that the requirements--in particular the registration costs and examining or publication requirements--do not unreasonably impair the opportunity to seek and obtain textile design protection.[45]

The minimum term of protection is 10 years.[46]Again, presumably because of the lack of a harmonizing convention, the Parties did not specify the starting point for the 10 year term--whether from publication of the design, registration, filing, creation, or commercial exploitation.

---

[42] NAFTA, Art. 1713(1).

[43] NAFTA, Art. 1713(1).

[44] NAFTA, Art. 1713(3).

[45] NAFTA, Art. 1713(2).

[46] NAFTA, Art. 1713(5).

With respect to exceptions or limitations, the Parties simply adopted once more the principle of Article 9(2) of the Berne (Copyright) Convention. A Party may provide limited exceptions that do not unreasonably conflict with normal exploitation of the design and do not unreasonably prejudice the legitimate interests of the owner. The NAFTA text does add a further caveat that broadens the possibility for limitations: the Party should also take account of legitimate interests of persons other than the owner of rights.[47] These persons would be retail businesses, consumers, and other purchasers of objects that contain protected designs. Again, given the lack of a harmonizing convention, the NAFTA countries did not attempt to describe the limitations with any specificity. A typical limitation in national law might exempt "innocent infringers," especially if they disclose the source of the infringing product. Other exceptions would at least allow the "innocent infringer" to dispose of existing stock, even after notice of infringement, but subject to reasonable remuneration to the right holder.

VII. TRADEMARK PROTECTION UNDER NAFTA

The NAFTA provides an adequate and effective system of protection for trademarks, which is established by Article 1708 of the Agreement. The first paragraph broadly defines a trademark as consisting of "any sign, or any combination of signs, capable of distinguishing the goods or services of one person from those of another, including personal names, designs, letters, numerals, colors, figurative elements, or the shape of goods or of their packaging."[48]

Service marks and collective marks are specifically included in the obligation to protect trademarks. The Parties have an option to protect certification marks.[49]

The basic obligation is to grant the trademark owner the right to prevent unauthorized use in commerce of identical or similar signs in connection with identical or similar goods or services, where the use would result in the likelihood of confusion as to the source of the goods or services.[50] A Party must establish a presumption of likelihood of confusion if an identical sign is used for identical goods or services.[51]

---

[47] NAFTA, Art. 1713(4).

[48] NAFTA, Art. 1708(1).

[49] *Id.*

[50] NAFTA, Art. 1708(2).

[51] *Id.*

Trademark rights must be extended to registered trademarks, and a Party has the option of granting rights on the basis of use of the trademark.[52] Actual use shall not, however, be a condition for filing for trademark registration, and an application cannot be refused solely on the ground the intended use has not taken place within three years of the date of application.[53] The nature of the goods or services to which the mark is attached shall not form an obstacle to registration.[54]

Trademark protection may be obtained through registration or through use under the common law in the United States. While common law trademark is a permissible option under the NAFTA, each Party must provide a system for trademark registration. The elements of the system must include examination of the claim; if registration is denied, notice must be given of the reasons for the denial and a reasonable opportunity to respond to the denial; and a reasonable opportunity must be given for interested persons to petition for cancellation of a trademark.[55] Trademark opposition proceedings may be allowed at the option of a Party.[56]

The NAFTA Parties agree that Article 6*bis* of the Paris Convention shall apply to services.[57]

Whether a trademark is well known or not shall be determined by knowledge of the mark in the relevant sector of the public. A Party cannot require that the reputation of the trademark must extend beyond the public sector that normally deals with the relevant goods or services, in order to enjoy protection against unauthorized use.[58]

The trademark must be valid for a minimum of 10 years, renewable at 10 year or longer intervals. The trademark is renewable indefinitely when the conditions for renewal have been met.[59] Use of the mark is one of the conditions for maintaining the trademark. Registration may be canceled for

---

[52] *Id.*

[53] NAFTA, Art. 1708(3).

[54] NAFTA, Art. 1708(5).

[55] NAFTA, Art. 1708(4).

[56] *Id.*

[57] NAFTA, Art. 1708(6). Although the 1967 Paris Convention can be considered the base-line convention for trademark protection, this clause is the only reference to the Paris Convention in Article 1708.

[58] *Id.*

[59] NAFTA, Art. 1708(7).

non-use only after an uninterrupted period of at least two years of non-use (unless the owner is able to prove that obstacles to use establish valid reasons for non-use).[60] Valid reasons include import restrictions on, or other government requirements for, the good or services identified by the trademark.[61] The general principle is that, if non-use occurs because of circumstances independent of the will of the trademark owner, cancellation of the trademark registration is not justified.

Authorized use by a licensee of the trademark owner, including use to maintain registration, must be recognized by a Party.[62] Use of the mark in commerce cannot be encumbered by special requirements.[63] A Party may, nevertheless, determine conditions on the licensing and assignment of trademarks, subject to two caveats: compulsory licensing of the mark is prohibited; and the trademark owner shall have the right to assign the mark with or without a transfer of the business to which the mark applies.[64]

A Party may also provide limited exceptions to the rights, such as allowing the fair use of descriptive terms. Again there is a caveat: the exceptions must take account of the legitimate interests of the trademark owner and of other persons.[65] These persons would be retail businesses and other purchasers of goods or services to which the mark might be applied.

Trademark registration of generically descriptive words shall be prohibited, at least in the English, French, and Spanish languages.[66] Also, trademark registration shall be refused for marks that comprise immoral, deceptive, or scandalous matter; matter that may disparage or falsely suggest a connection with persons living or dead, institutions, beliefs or any Party's national symbols, or bring them into contempt or disrepute.[67]

---

[60] NAFTA, Art. 1708(8).

[61] *Id.*

[62] NAFTA, Art. 1708(9).

[63] NAFTA, Art. 1708(10).

[64] NAFTA, Art. 1708(11).

[65] NAFTA, Art. 1708(12).

[66] NAFTA, Art. 1708(13).

[67] NAFTA, Art. 1708(14).

VIII. PATENT PROTECTION UNDER NAFTA

General Obligations

The NAFTA establishes obligations in Article 1709 to provide a fairly good level of patent protection, requiring that patents shall be available for any invention, whether a product or process, in all fields of technology, if the product or process is new, results from an inventive step, and is capable of industrial application.[68]

The base-line convention for patent protection is the 1967 Paris Convention for the Protection of Industrial Property. Unlike the copyright field, however, this base-line international convention provides relatively modest protection. The 1967 Paris Convention lacks the detailed minimum rights that characterize the Berne Convention in the copyright field. National treatment protection is the cornerstone and almost the sole foundation of the 1967 Paris Convention.[69] While national treatment is certainly preferred to reciprocity, the absence of supplementary minimum rights has held down the minimum level of protection in the patent field. In addition, the 1967 Paris Convention allows compulsory licensing of patents, and many national laws invoke the compulsory licensing option.

The obligations established by the NAFTA certainly improve the level of patent protection, for example, by including a broad clause on nondiscrimination against fields of technology and by imposing conditions on compulsory licensing. These clauses will make American pharmaceutical products subject to greater patent protection in Canada and Mexico. From the viewpoint of certain America businesses, however, the NAFTA does not go far enough since it does not mandate protection for diagnostic, therapeutic, and surgical methods; for transgenic plants and animals and for essentially biological processes for

---

[68] NAFTA, Art. 1709(1). At the election of a Party, "inventive step" may be considered synonymous with "non-obvious," and "capable of industrial application" may be considered synonymous with "useful."

[69] Because patents are issued by the government, the Paris Convention provides that any patent issued in one country for a given invention is independent of the patent in another country for the same invention. The grant of a patent in one country does not entail any obligation to issue a patent in another member country. By contrast, copyright arises automatically upon creation of the work, and each member of the Berne Convention is required to protect original literary or artistic works that emanate in another member country. In the case of patents, the principal benefit of the Paris Convention aside from the obligation to apply the principle of national treatment is the right of priority of filing for the patent. By filing in one member country, the applicant gains 12 months in which to comply with the filing requirements in any other member countries. The Paris Convention provides a similar priority filing benefit in the case of trademarks, except that the grace period for filing is six months.

producing plants and animals other than the protection allowed for microorganisms and plant varieties.[70]

Exclusions

Patentability may also be excluded on the ground that exclusion is necessary to protect public order or morality--for example, to protect human, animal or plant life or health, or to avoid serious prejudice to nature or the environment.[71] This general public order exclusion, if exercised, cannot be applied solely on the ground that the Party prohibits commercial exploitation of the subject matter in its territory.[72] That is, there cannot be a generic public order exclusion; the exclusion must be based on a finding that the particular product or process would seriously harm life or health or the environment.

Basic Rights

Both product and process patents must be protected. In the case of product patents, the owner is entitled to prevent others from making, using or selling the patented subject matter without consent.[73] In the case of process patents, the owner is entitled to prevent others from using that process and from using, selling or importing the product obtained directly from the patented process without consent.[74]

Limitations

Limited exceptions to these exclusive patent rights are permitted, provided the exceptions do not unreasonably conflict with normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of other persons.[75] Again, the NAFTA adopts the general copyright principle on limitations of rights found in Article 9(2) of the Berne Convention, to establish the general principle of limitations acceptable in the patent field. Like the principle applied to industrial designs, the general limitation departs from copyright practice in

---

[70] NAFTA, Art. 1709(3).

[71] NAFTA, Art. 1709(2).

[72] *Id.*

[73] NAFTA, Art. 1709(5).

[74] *Id.*

[75] NAFTA, Art. 1709(6).

requiring the Parties to take account not only of the interest of the right holder but the "legitimate interests of other persons."

The NAFTA plows new ground in attempting to establish a brake on exceptions to patent rights by adoption of a general principle that has served that function in the copyright field. The effectiveness of this transmogrification is unclear. There are no patent precedents, and it is unlikely that copyright precedents will have any interpretive value. Presumably, this attempt to engraft a new limiting principle to the patent field is better than silence on permissible limitations. Also, in combination with the restrictions on compulsory licensing, the general limitation on exceptions should improve the level of patent protection available to American rights holders in Canada and Mexico.

Non-discrimination against Technologies

There are other guarantees to assure an appropriate level of patent protection. Unless the patentable matter can be excluded by Article 1709(2) and (3) (necessity of public order or morality; diagnostic, therapeutic or surgical methods; plants and animals other than microorganisms; and essentially biological processes for production of plants and animals), patents shall be available and rights enjoyed without discrimination as to the field of technology, irrespective of the territory of the Party where the invention was made or whether the patented products are imported or locally produced.[76] This clause should mitigate any attempt to require the working of a patent or manufacture of the product locally as a condition of maintaining the patent.

Assignability

Each Party shall permit assignments and transfer of patents and must assure the patent owner is entitled to engage in licensing the rights.[77]

Compulsory Licensing

Compulsory licensing of patents has been a controversial issue for decades. The 1967 Paris Convention allows compulsory licensing, and virtually all countries permit compulsory licensing of certain patents for exceptional reasons. Even the United States allows compulsory licensing of weapons technology needed for defense and national security purposes.[78] Other countries have

---

[76] NAFTA, Art 1709(7).

[77] NAFTA, Art. 1709(9).

[78] Title 28 U.S.C., section 1498(a) creates a right of action against the government for patent infringement, but also allows for administrative settlement of infringement claims by payment of damages. The provision has sometimes been treated as an eminent domain or compulsory license mechanism. Since the government cannot be enjoined from continuing the infringement, the patent holder has lost the power of authorization and has only a right to

similar provisions to justify government appropriation of patentable subject matter for purposes of defense and national security. Controversy has centered on application of compulsory licensing to non-military activities, both non-commercial and commercial. While the NAFTA does not prohibit compulsory licensing of patentable subject matter, it substantially narrows the permissible grounds for compulsory licensing.

The following conditions must be observed under the NAFTA in the case of exceptions to rights not justified by the general limitation provision of Article 1709(6).[79] Governmental authorization to engage in compulsory licensing must be considered on its individual merits; there can be no blanket authorization to appropriate a patent. The proposed compulsory licensee must have made efforts to obtain a negotiated license from the right holder on reasonable commercial terms and failed to do so within a reasonable period of time.[80] As an exception, a Party may waive the requirement to seek a negotiated license first in cases of national emergency or other circumstances of extreme urgency, or in cases of public non-commercial use. This exception means governments may continue to invoke the national security justification for compulsory licensing without first seeking a negotiated license. If a compulsory license is issued on the ground of national emergency or extreme urgency, the right holder shall be notified as soon as reasonably practicable. If the compulsory license is issued for public non-commercial purposes, the right holder shall be informed where use of the patent is known or demonstrable grounds to impute knowledge exist without making a patent search.[81]

The right holder must be paid adequate remuneration for the use under the compulsory license, consistent with the economic value of the authorization to use the patent.[82]

Other conditions are: the scope and duration of the use shall be limited to the purpose for which the governmental authorization is given; the license is non-exclusive and non-assignable (except as part of a transfer of the business or

---

remuneration.

[79] The use authorized by a compulsory license would exceed the limits of Article 1709(6). That is, the use would conflict with the normal exploitation of the patent or would prejudice the legitimate interests of the patent owner. Those who invoke a compulsory license must find additional justification for depriving the patent owner of his or her normal rights. The usual justifications are national defense or security; abuse of the patent monopoly through anticompetitive behavior; failure to work the patent in a given country; and overriding interest in protecting life, health, or the environment.

[80] NAFTA, Art 1709(10).

[81] NAFTA, Art. 1709(10)(b).

[82] NAFTA, Art. 1709(10)(h).

good will of the business enjoying the use); the license shall be authorized predominantly for supplying the domestic market, thus prohibiting compulsory licensing primarily for export; the compulsory license should be terminated if the justification for its issuance ceases and is unlikely to recur; to facilitate termination, the governmental authority shall review requests for termination from the right holder; issuance of the compulsory license, including the amount of remuneration, shall be subject to judicial review or other independent, higher review.[83]

The issuance of a compulsory license to exploit a dependent patent is not permitted, except as a remedy for an adjudicated violation of laws regarding anticompetitive practices.[84]

The restrictions on compulsory licensing set out in Article 1709(10(b) through (f) may be waived where the license is issued to remedy an anticompetive situation that has been judicially or administrately determined to exist. The conditions subject to waiver are: the requirement of seeking a negotiated license first; the limitation of the scope and duration of the license based on the purpose of the authorized use; non-exclusivity and non-assignability of the license; and limitation of the license to supply of the domestic market predominantly. Correction of the anticompetitive behavior may also affect the amount of remuneration, and the governmental authority may refuse to terminate the license if the anticompetitive behavior is likely to recur.[85]

The restrictions on compulsory licensing represent a notable advance on the level of protection mandated by the 1967 Paris Convention. The achievement is especially significant because the United States reached this agreement with a developing country (Mexico) and a mid-level developed country (Canada), both of whom had allowed compulsory licensing on a much broader scale than that now permitted under the NAFTA. Canada, for example, will dismantle its compulsory licensing system for pharmaceutical products and processes. The prohibition on issuance of a compulsory license to add to a dependent patent (except as a remedy in cases of an adjudicated violation of the competition laws) is another major accomplishment. Finally, the patent owner is entitled to adequate remuneration (except for possible reduction of the amount to control anticompetitive behavior).

---

[83] NAFTA, Art. 1709(10)(c)-(j).

[84] NAFTA, Art. 1709(10)(1).

[85] NAFTA, Art. 1709(10)(k).

Minimum Term

The minimum term for patents must be at least 20 years from the date of filing or 17 years from the grant of the patent. The term may be extended, in appropriate cases, to account for delays in patent issuance.[86]

Burden of Proof - Process Patents

In the case of process patents, the burden of proving that the allegedly infringing product was made by a process other than the patented process shall be placed on the defendant where (i) the product is new, or (ii) there is a substantial likelihood of infringement but the patent owner has not been able through reasonable efforts to determine which process was used by the defendant.[87]

The court, however, should take account of the trade secret rights of the defendant in the gathering and evaluation of the evidence.

Patent Revocation

A patent may be revoked only when grounds exist that would have justified a refusal to issue the patent originally, or where the issuance of a compulsory license has not remedied the lack of exploitation of the patent.[88]

Protection of Pharmaceutical and Agricultural Chemicals

On the request of the inventor of a pharmaceutical or agricultural chemical product patented in one Party but not marketed in another Party because patent protection has not been available, the Party shall grant protection for the unexpired term of the patent dated from January 1, 1992 for subject matter that relates to naturally occurring substances produced by or significantly derived from microbiological processes and intended for food or medicine. Under the same general conditions, the Party shall grant protection for the unexpired term of the patent dated from July 1, 1991 for any other subject matter in the field of pharmaceutical or agricultural chemicals.[89]

This obligation to accord "pipeline" protection for the unexpired patent term fills part of the gap in protection for pharmaceutical and agricultural chemical products in Canada and Mexico. These are important fields of research and

---

[86] NAFTA, Art. 1709(12).

[87] NAFTA, Art. 1709(11).

[88] NAFTA, Art. 1709(8).

[89] NAFTA, Art. 1709(4).

development in the United States. Our inventions in these vibrant industries will now enjoy effective protection in Canada and Mexico.

Amendment of U.S. Law

Implementation of the NAFTA required one major change in United States patent law. SEC. 331 of Public Law 103-182 amends title 35 U.S.C., section 104, to provide that evidence of inventive activity in Mexico or Canada may be introduced in United States administrative or judicial proceedings to establish the date of invention. In addition, if the inventor serves in the military of a NAFTA country, he or she may introduce evidence of inventive activity in any country in which he or she is serving.

The Implementation Act also attempts to address concerns about a lack of discovery procedures in another NAFTA country. The Act provides that someone who challenges the evidence of inventive activity outside the United States may make a showing that certain information, which would be discoverable in the United States, exists in Canada or Mexico but has not been made available upon request. Based on this showing, the United States decision-maker must draw appropriate inferences or take other permissible action in favor of the party requesting the information in the United States proceeding.

IX. TRADE SECRET PROTECTION UNDER NAFTA

The NAFTA is the first international agreement explicitly to recognize an obligation to protect trade secrets. No prior treaty requires trade secret protection, although the 1967 Paris Convention provides some protection against unfair trade practices.[90] Clearly, the agreement to protect trade secrets represents a substantial improvement in intellectual property protection and is one of the major accomplishments of the NAFTA.

Trade secrets protection originated under common law doctrines. It remains a state law system of protection in the United States, since there is no general federal trade secret law. Some states have supplemented the common law with the Uniform Trade Secrets Act. Given the common law nature of the right, it is not surprising that no international agreement before the NAFTA explicitly protected trade secrets.

Unlike other forms of intellectual property, trade secrets do not entail the power to exclude other persons from any particular activity, such as copying, using, or performing the subject of protection. The trade secret owner instead has the right to prevent acquisition of the proprietary information through unlawful means, including breach of confidence, breach of contract, industrial espionage, and illegal tampering with employees.

---

[90] Article 10*bis* of the 1967 Paris Convention.

In order to enjoy trade secret protection, the information must be secret, have economic value, and be protected against disclosure.

Article 1711 of the NAFTA establishes an obligation to accord protection against the disclosure, acquisition, or unconsented use of trade secrets contrary to honest commercial practices. Trade secrets are defined as information that is secret, has actual or potential commercial value because it is secret, and as to which the owner has taken reasonable steps to ensure secrecy.[91] The information is secret if it is neither generally known nor readily accessible to persons who normally deal in that type of information. A Party may require that the trade secret must be evidenced in documents, electronic or magnetic media, optical discs, microfilm, films, etc.[92] This option was included because Mexican law imposes a requirement of tangibility.

The trade secret must be protected indefinitely, as long as the conditions for a valid trade secret are met.[93]

A Party may not discourage or impede voluntary licensing of trade secrets through excessive or discriminatory conditions.[94]

Proprietary data that must be submitted to the government in order to obtain approval to market pharmaceutical or agricultural chemical products is singled out for explicit protection. Such data shall be protected against disclosure where its origination involves considerable effort, except where disclosure is necessary to protect the public or unless steps are taken to protect against unfair commercial use of the data.[95] The NAFTA further specifies the steps a government must take with respect to required pharmaceutical or agricultural chemical product test data that are submitted to a NAFTA government after the entry into force of the NAFTA. The government must provide that no other person (without permission of the owner of the data) may rely on the data in support of a product approval application for a reasonable period of time after submission of the data.[96] Normally, the data must receive this protection for five years from the date the product is approved for marketing.[97] Where a Party relies on a marketing authorization granted by

---

[91] NAFTA, Art. 1711(1).

[92] NAFTA, Art. 1711(2).

[93] NAFTA, Art. 1711(3).

[94] NAFTA, Art. 1711(4).

[95] NAFTA, Art. 1711(5).

[96] NAFTA, Art. 1711(6).

[97] *Id.*

another NAFTA country, the period for protection of the test data is computed from that first marketing approval date.[98]

X. PROTECTION OF GEOGRAPHICAL INDICATIONS UNDER NAFTA

Article 1712 of the NAFTA establishes obligations to protect against misleading misdescription of the geographical origin of a good. A Party shall prevent a designation or presentation of a good that misdescribes its true origin in a manner that misleads the public as to the geographical origin of the good.[99] A Party shall also prevent any use that constitutes an act of unfair competition within the meaning of Article 10*bis* of the 1967 Paris Convention on Industrial Property.[100]

Either on its own initiative or upon request of an interested person, a NAFTA government shall refuse to register (or invalidate a registration already made for) a trademark containing or consisting of a geographical indication that misdescribes the origin of a good in a way that misleads the public.[101] This obligation applies even where the geographical origin in correctly indicated but there is also a false representation that the goods originate in another territory, region, or locality.[102]

There is a grandfather provision, however, regarding continuous use of the geographical indication before the date of signature of the NAFTA (i.e., December 17, 1992). The obligation to prevent misleading misdescription of geographical origin does not apply if the indication has been used continuously on the same or related goods or services by any national or domiciliary of the NAFTA Party in its territory for at least 10 years before December 17, 1992, or in good faith before the date.[103]

Also, there is no obligation to provide protection where the geographical indication is identical to the customary term in common language in that

---

[98] NAFTA, Art. 1711(7).

[99] NAFTA, Art. 1712(1).

[100] *Id.*

[101] NAFTA, Art. 1712(2).

[102] NAFTA, Art. 1712(3).

[103] NAFTA, Art. 1712(4).

Party's territory as applied to a particular good or service,[104] or if the indication is unprotected, or has fallen into disuse, in the Party of origin.[105]

A Party may condition protection, in connection with use or registration of a trademark, on presentation of a request within five years after the adverse use has become known in that Party or after the date of trademark registration (provided the trademark has been published by that date) if such date is earlier than the date on which the adverse use became generally known in that Party and provided the geographical indication is not used or registered in bad faith.[106]

If trademark protection has been applied for or registered in good faith, or trademark rights acquired through use in good faith, either before Article 1712 becomes applicable in that Party or before the geographical indication is protected in its Party of origin, no NAFTA country may take any measures to negate trademark protection on the basis that the mark is identical with, or similar to, a geographical indication.[107]

Finally, no Party shall take any measures generally to prejudice the right to use one's own name or the name of a predecessor of that person's business in the course of trade. As an exception, however, the right to your own name may be curtailed where the name forms all or part of a valid trademark that existed before the geographical indication became protected, if there is a likelihood of confusion, or if the name is used so as to mislead the public.[108]

SEC. 333 of the NAFTA Implementation Act. Public Law 103-182 amends the Trademark Act of 1946[109] to comply with these obligations relating to geographical indications. The Act creates a distinction in subsection 2(e)[110] of the Trademark Act between geographically descriptive and misdescriptive marks. Subsections 2(f)[111] and 23(a)[112] of the Trademark Act are amended

---

[104] NAFTA, Art. 1712(6).

[105] NAFTA, Art. 1712(9).

[106] NAFTA, Art. 1712(7).

[107] NAFTA, Art. 1712(5).

[108] NAFTA, Art. 1712(8).

[109] Trademark Act of July 5, 1946, 60 Stat. 427, title 15 U.S.C., sections 1051-1128.

[110] 15 U.S.C. section 1052(e).

[111] 15 U.S.C., section 1052(f).

[112] 15 U.S.C., section 1091(a).

to preclude registration of "primarily geographically deceptively misdescriptive" marks on the principal and supplemental trademark registers. Under the former law, deceptively misdescriptive marks could be registered on the supplemental register, which could in time have supported a claim of distinctiveness sufficient to qualify ultimately on the principal register. Because of the NAFTA amendments, distinctiveness will no longer provide a basis for overriding the general prohibition of registration of misdescriptive marks on the principal register. Registration of primarily geographically deceptively misdescriptive marks on the supplemental register is also precluded.

Dorothy Schrader
American Law Division