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Joseph S. Papovich

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NAFTA'S PROVISIONS REGARDING INTELLECTUAL PROPERTY-ARE THEY WORKING AS INTENDED?-A U.S. PERSPECTIVE

*Joseph S. Papovich**

Are the the NAFTA IPR provisions working as they were intended? That is an interesting question that I think about quite a bit in my job. There are actually a couple of questions there that I would like to explore with you. One question is, who cares? Who cares if they are working as they are intended?

Intellectual property covers a wide number of industries; it can affect anybody who has creative or inventive products where they would like to maximize the utility of the products that they have invented or created. But these NAFTA IPR provisions are particularly interesting to two segments of the U.S. economy. I say this because these are the two segments that visit me the most and press upon me the most. They care the most about these provisions and whether the provisions are implemented. Those are the copyright community, companies that produce motion pictures, sound recordings, computer software, books, and the pharmaceutical industry, which is very dependent on being able to obtain patents for the pharmaceuticals that they invent.

Almost every company has a trademark, and trademarks need to be protected. These folks have concerns too, but there is a concentrated concern about making sure that the NAFTA intellectual property provisions work as intended, especially among the copyright and pharmaceutical industries of the United States.

What are the NAFTA provisions respecting intellectual property? I have been in this job for three years, just a little over three years, and I had no background in intellectual property before this, so I have had to learn quite a bit. Over the course of the last three years, I have learned that the provisions are very clear with respect to our relations between the United States and Mexico. They are much less clear, in my mind, with respect to the United States and Canada. This probably works out

* Joseph Papovich is the Deputy Assistant Trade Representative for Intellectual Property in the Office of the U.S. Trade Representative in Washington, D.C.

for the best because, for the most part, we do not have the same kind of intellectual property problems with Canada that we have with Mexico. As a general rule, intellectual property is respected in Canada. We have very few complaints from U.S. industry about having a difficult time protecting or obtaining intellectual property protection or enforcing it in Canada. But I can tell you that we have huge problems with respect to these issues in Mexico.

Since I spend more of my time dealing with U.S./Mexico relations, I am going to say a fair amount about that today, even though there do not seem to be too many Mexicans here to comment upon what I might have to say. The chapter of the NAFTA that deals with intellectual property is Chapter 17. If you read Chapter 17, and if you compared it to the WTO agreement on intellectual property, which is called the TRIPs agreement,¹ you would see that they are very similar documents. In fact, they were negotiated basically at the same time by the same people.

It was the United States in the Uruguay Round negotiations in the GATT that produced the WTO who insisted that there be a WTO intellectual property agreement. And it was the same people, when the United States, Canada, and Mexico sat down to discuss what should be in NAFTA, who said we have to have a strong intellectual property chapter. So it makes sense that the provisions are very similar.

At various points along the way, as the NAFTA and the TRIPs agreements were being negotiated, there were doubts as to whether or not the Uruguay Round would ever be completed, so those negotiators worked very hard to make sure that the provisions that they cherished so much, that they wanted to have in the WTO, or the GATT made it into the NAFTA. Both agreements, both chapters or provisions, borrowed heavily from agreements that already existed. You find them in a place called the World Intellectual Property Organization (WIPO), which, for over a century, has been developing rules to which many countries have agreed for protecting copyrights, patents, trademarks, trade secrets, and industrial designs.

So anyone could ask, why do we have to have additional agreements that say the same thing? In fact, if you look at NAFTA and you look at the TRIPs agreement, you will see that huge portions of these WIPO conventions are just incorporated by reference. Why are we doing

¹ World Trade Organization AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY. As of March 29, 1996, 119 countries were WTO members and, therefore, parties to TRIPs.

that? It is because these WIPO conventions, as good as they are, do not have enforcement provisions attached to them. And you have well over one hundred countries of the world that belong to the WIPO conventions, but who more or less enforce them or do not enforce them, as they choose. For U.S. intellectual property rightholders, particularly in the copyright and pharmaceutical industries, they wanted to get these provisions enforceable.

The beauty of Chapter 17 of NAFTA and the TRIPs agreement is that there are provisions written right into the chapters. They say all of these types of intellectual property protection must be provided, Chapters, Articles 1 through 21, or whatever, of the Paris convention for the protection of industrial property are incorporated by reference into this agreement and provisions must be provided within the country for enforcing these rights. That is something that was a fundamental step above what you find in any of these WIPO conventions.

Chapter 17 of NAFTA then goes on to add some things that the United States cherished that we were unable to get into the TRIPs agreement. It is easier to negotiate with two other countries than it is with over one hundred other countries, so I guess it is understandable that you would be able to achieve more of your objectives in a smaller negotiation. But there are a number of fundamentally important provisions that are in Chapter 17. Still, more or less, the two documents are very similar.

There are several significances to the United States of having Chapter 17. One of them is the point that I already made, it provides a clear enforcement mechanism for enforcing your intellectual property rights. It was a fail-safe, if you will, just in case the TRIPs agreement did not work or did not happen. We would already have an intellectual property agreement with respect to the NAFTA countries.

Also, Chapter 17 is a model for our ongoing relations with the rest of the countries of the hemisphere. Last night, we discussed Chile's joining the NAFTA. As I listened to the discussion, it evolved away from just being a discussion of Chile to be also a discussion of this whole FTA process. So I thought I just would tell you that I am a person who is personally involved in the FTAA undertaking that we now have, and although we do not have Fast Track authority in the United States, the process is nevertheless moving. We have established in the FTAA context negotiating groups, we call them working groups, on a variety of topics, including intellectual property, and we meet regularly. There are thirty-four countries participating in the FTAA. They do not all show up for meetings of the intellectual property working group, but probably two-thirds, twenty-five or so, of the countries

do, and we are doing things. We are making proposals.

Our IPR working group has just submitted a proposal to the ministerial meeting, the FTAA meeting, which will be occurring in mid-May in Belo Horizonte, Brazil. This proposal would have our ministers direct us within one year to develop specific recommendations for reducing piracy and counterfeiting throughout the hemisphere. That is a significant event already, if we can pull that off. We do not need to wait until 2005 to negotiate that. It is something we have agreed that we will do now. We do not need Fast Track for that, and it is not going to require legislative changes for the United States.

If we can achieve that, then it will be a stepping stone, a building block, a confidence builder, for us to go on to the harder part in this IPR context. The harder part will be our objective in the United States, which will be to persuade all thirty-four countries to incorporate a chapter on intellectual property into this FTAA agreement that we hope will be concluded in 2000, or by 2005. That chapter on intellectual property, if we have our way, will look a lot like Chapter 17 of the NAFTA, but with one exception. Our view is that Chapter 17 of the NAFTA and the TRIPs agreement reflects a snapshot, a picture of the economic world, and the world of intellectual property that existed around 1990. So the TRIPs agreement and Chapter 17 are fairly moderate, but the problem is, in an area like intellectual property, developments are occurring so quickly that already one could argue that the TRIPs agreement and Chapter 17 are out of date.

In fact, the world has recognized that fact over at WIPO, where just this past December they concluded new agreements in the copyright area for protecting information transmitted across the Internet. Arguably, such information is protected under copyright, and one could argue that protection is already provided by the WIPO's Berne Convention, which is the copyright convention, but it is not clear. Countries felt strongly enough about it that they decided to negotiate a new agreement that made it clear that electronic transmissions across the Internet are protectable under copyright.

The snapshot has changed and now the question becomes, should the TRIPs agreement be modified? Should the Chapter 17 be modified? Should the FTAA chapter on intellectual property that is going to be negotiated over these next several years incorporate these new concepts? The United States answers, of course they should. Otherwise, when they hit 2005 and we slap ourselves on the back and congratulate ourselves for having concluded a FTAA agreement, it will be great. It will be one that is designed to address the world of intellectual property that existed fifteen years earlier. Well, that would be, in our view, a waste of time.

So as we go through the long FTAA process, we are going to be needing to incorporate these new developments.

Similarly, in the world of biotechnologies, all kinds of things are occurring, and many of them are controversial. What should be the protection for that? The United States grants patents for most anything that is original, new, an inventive step, and is not obvious, including life forms. Other countries cannot imagine doing such a thing. We need to address that in this negotiation.

With respect to the Chapter 17 and whether it is working as intended, between the United States and Mexico, this has been a fairly major issue. We have established a bilateral working group on intellectual property that meets every couple of months.

The Mexicans have been undergoing a major reform of their copyright law to bring it into compliance with Chapter 17. They finished these amendments. They were enacted in December. There are many significant improvements and NAFTA-assisted provisions in this new law. There were a couple of problems with this new law, and I think they may have been inadvertent mistakes, but it appears that sound recording piracy and what we call end-user software piracy, where big companies just buy one copy of software and put it on all their computers, were decriminalized. That is a problem. You cannot decriminalize software buyers, use software piracy and sound recording piracy, and be consistent with NAFTA. You also cannot do that and expect those two U.S. industries to sit quietly. They were not sitting quietly. So we were working with Mexicans to correct those problems.

Equally important to the need for amendment to Mexico's copyright law is the enforcement situation. I think the United States is learning an important lesson here in the intellectual property area. We see this as a fundamental national interest, that intellectual property be protected wherever we can get it protected. We press countries hard. We put a lot of resources into pressing other countries to do more to protect intellectual property. One of our goals has been to get it and get it fast.

When the TRIPs agreement was negotiated, one of the great controversies in the IP area for the United States was that the agreement provides fairly long transitional periods for developing countries before the TRIPs obligations apply. One of the great achievements of the NAFTA was that Mexico did not get those transition periods. We felt good about that. The problem is, Mexico was not prepared to implement all these sophisticated intellectual property provisions, and neither are many other countries.

The enforcement of intellectual property rights in Mexico is still not close to what it is in the United States or in Canada. That has caused a

fair amount of frustration and friction between the two countries. We want more to be done. The great achievement of TRIPs and of NAFTA Chapter 17 is that it applies the enforcement provision to these rights and obligations. But many folks in Mexico who are on the enforcement end just do not understand the significance of intellectual property protection, and it is hard to get prosecutors to go out and prosecute people who are committing end-user software piracy, for example, or who are selling pirate CDs in the town marketplace. People ask, what is wrong with that? Everybody does it. To a certain extent, that happens everywhere, including in the United States and Canada, but it happens to a larger extent in Mexico, and to a larger extent elsewhere. So there is a heavy educational task involved. It is going to be required, and that is happening now. The IPR provisions of the NAFTA are not yet working as intended with respect to Mexico. But, we are getting there.

I will say that the people in the Mexican government who are responsible for intellectual property are dedicated people who are working extremely hard at this. This is not an issue where the Mexican government says that this is something the Americans care about, but we do not, so we are just going to try to do as little as possible. That is not true. But we still have a long way to go before we can say that the intellectual property provisions of the NAFTA are working as intended between the United States and Mexico. With respect to Canada, I will say a few words about that. As I said earlier, intellectual property protection in Canada is strong. There is not a problem of piracy and counterfeiting any more than there is a problem of piracy and counterfeiting in the United States. It is everywhere, but it is not a problem. The cultural issues dominate our relations.

But part of the problem with analyzing whether the IP provisions are working as intended between the United States and Canada is the large amount of confusion about the IP provisions between the two countries. There is no IP chapter in the U.S./Canada Free Trade Agreement, and the obligations between the United States and Canada with respect to Chapter 17 are open to some debate. We think they apply. I have heard people from Canada say no, they do not. At some point we are liable to end up testing them, but we have not gotten to that yet.

What may bring us to that point is copyright legislation currently pending in Ottawa that, again, would do many good things. Legislation has many good positive features to it that we applaud, but there are two issues within it that are of concern to us. One is a levy on the sale of blank tapes, and the other is the establishment of a performance rate for music that is played, for example, on the radio. Should there be royalties paid to performers and producers of that music?

Blank tape levies have been a matter of dispute for several years between the United States and some European countries, so it is an issue with which we are familiar. The notion of blank tape levies is not something we object to. It is understandable. Most blank tapes that are sold are sold for the purpose of copying music. Audio tapes are sold for the purpose of copying music either off the radio or off somebody else's CD or tape. The idea of putting a levy on the tape is that the levy is then given to the government, which gives the money collected to those who otherwise would have benefitted from the sale of the copy. Those are the authors, whoever the composer of the music is, the performer, and the record company. That is fine.

But as I understand it, the copyright legislation in Canada would not share with American performers and producers. There would not be a share that would come to American performers and producers on the grounds that the United States does not have a comparable blank tape levy, at least not for analog tapes. We do for digital tapes, but that is more of a future issue in any case. We do not think that right exists for Canada, to use that as a basis for denying us the share of these royalties. So if this legislation passes, and if our producers do not get our share of the royalties, I think we will end up having a dispute over that. I could imagine it, in any case.

Similarly, on the subject of performance rights, which is even more complicated, is the notion of business collecting royalties from music played on the radio. In the United States we do not do that. When music is played on the radio in the United States, the radio station must pay a royalty, to the composer, but not to the performer or the producer. It is just the way things work in the United States. Most countries pay royalties to all three parties, the author, the performer, and the producer. We do not. And there is an international WIPO agreement that provides for these things. It is called the Roman Convention. It is a reciprocal agreement, not a national treatment-based convention. Canada is contemplating joining the Roman Convention because of this legislation. We do not belong to the convention in the United States because of a variety of complications. I can see a dispute pending there too. We will have to see about that.

So there are some potential problems on the horizon between us. We have more or less good relations notwithstanding this cultural issue. But those aspects of the cultural debate, as a practical matter or as a theoretical matter, I am not sure which, are not strictly intellectual property. They are more market access services, so luckily it falls outside my sphere of responsibility.

Again, the question was are these IP provisions working as intend-

ed? As I have already said a couple of times, with respect to Mexico, I think the obligations are clear. Progress is occurring, no doubt about it. But we still have a long way to go. And with respect to Canada, it is the other way around. The obligation, I think, is less clear. There are fundamentally conflicting perceptions as to whether or not there is a problem, but protection is strong.