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Combatting Piracy of Intellectual Property in International Markets: A Proposed Modification of the Special 301 Action

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ABSTRACT

Increasing losses attributable to the piracy of United States intellectual property rights in international trade have forced domestic policymakers to reexamine how best to protect these rights. This Article examines the United States most recent bilateral strategy to protect intellectual property, the Special 301 action, which creates a virtually mandatory United States Trade Representative (USTR) investigation into states that have inadequate intellectual property laws or that deny fair market access to United States citizens who rely on intellectual property protection. Part One of this Article discusses the historic interaction between United States intellectual property protection and trade measures. Part Two examines the Special 301 mechanism itself. Part Three develops a framework for evaluating the efficacy of the Special 301 mechanism as a bilateral trade weapon to secure the protection of United States intellectual property rights abroad and argues that the USTR's application of Special 301 to date represents an attempt to exercise a significant degree of administrative discretion unauthorized by Special 301's governing statutory framework. The Article concludes with a suggestion that Congress should amend the Special 301 action to provide statutory authority for the highly discretionary approach adopted by the USTR.

TABLE OF CONTENTS

I. INTRODUCTION 506
II. THE RELATIONSHIP OF UNITED STATES INTELLECTUAL PROPERTY DOCTRINE AND TRADE PROTECTION MECHANISMS 510
A. *Copyright* 512

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1. The Chace Act 512
2. The Caribbean Basin Initiative 513
B. *Trademark* 514
C. *Semiconductor Mask Technology* 515
III. THE SPECIAL 301 ACTION: PROCEDURES AND APPLICATIONS 516
A. *Procedures* 516
1. The Special 301 Priority Determination 516
2. The Section 301 Investigation Under Special 301 519
B. *Applications to Date* 523
IV. THE SPECIAL 301 MECHANISM: ESTABLISHING AN EVALUATIVE FRAMEWORK 526
V. CONCLUSION 532

I. INTRODUCTION

The increasing importance of intellectual property rights in world markets has pushed the issue of their proper legal treatment to the forefront of domestic and international debate. Among northern industrialized states, a consensus exists that national policymakers should concern themselves with the protection of intellectual property rights. Pursuant to this view, incentives must be provided to encourage innovative activity and maintain competitiveness in world markets. Moreover, returns on innovation must be guaranteed to avoid the impairment of innovative activity.[1] Accordingly, these nations have traditionally placed considerable importance on the protection of the intellectual property rights of

1. The Reagan Administration's statement on the subject provides a typical example of the industrialized states' position with regard to the protection of intellectual property rights in international trade:

> Intellectual property protection is critically important to the United States, our trading partners and the world economy.
>
> Adequate and effective protection fosters creativity and know-how, encouraging investment in research and development and in new facilities.
>
> Innovation stimulates economic growth, increases employment and improves the quality of life.
>
> Technological progress is a critical aspect of U.S. competitiveness as well as freer and fairer global trade.
>
> In developing countries, improved intellectual property can foster domestic technologies and attract needed foreign know-how and investment.

U.S. Trade Representative, *Administration Statement on the Protection of U.S. Intellectual Property Rights Abroad*, 31 Pat. Trademark & Copyright J. (BNA) No. 775, at 506, 506 (Apr. 10, 1986) [hereinafter *Administration Statement*].

their citizenry.[2]

Not all participants in world trade, however, share this view. In contrast with their more industrialized counterparts, developing states frequently consider the intellectual property issue to revolve around fundamental economic policy questions, rather than the recognition of fundamental rights comparable to those accorded to physical property.[3] For these states, the extensive rights granted by protective intellectual property laws create undesirable monopolies on advanced technology that facilitate the extraction of unreasonably high revenues and erect unjustified restrictions on desirable applications.[4] Pursuant to this view, weak protection of intellectual property rights makes knowledge available to all at minimum cost.[5] Furthermore, the resulting benefits that flow to less developed states benefit all in the world community.[6]

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2. *See, e.g.*, U.S. CONST. art. I, § 8, cl. 8 (authorizing Congress to establish patent and copyright protection for authors and inventors).

3. R. Michael Gadbaw & Timothy J. Richards, *Introduction, in* INTELLECTUAL PROPERTY RIGHTS: GLOBAL CONSENSUS, GLOBAL CONFLICT? 1, 2 (R. Michael Gadbaw & Timothy J. Richards eds., 1988); *cf.* Robert P. Benko, PROTECTING INTELLECTUAL PROPERTY RIGHTS: ISSUES AND CONTROVERSIES 17 (1987) ("Early debate [between northern nations] about whether there should be a property [right] in a technological idea has almost completely vanished—lawyers consider the question solved. The question has recently reappeared, however, in the context of north-south debates and in controversies surrounding new technologies.").

4. Edwin Mansfield, *Intellectual Property, Technology and Economic Growth, in* INTELLECTUAL PROPERTY RIGHTS IN SCIENCE, TECHNOLOGY, AND ECONOMIC PERFORMANCE: INTERNATIONAL COMPARISONS 17, 27 (Francis W. Rushing & Carole Ganz Brown eds., 1990). The Latin American Association of Pharmaceutical Industries recently has articulated the perceived detrimental effects of strong patent laws:

> Patents, with the monopoly they provide for imports, would eliminate the local production of raw materials which has arisen in various countries of the region, worsening the balance of trade by several billion dollars, and therefore, would reserve the markets of the region for exports from the United States and other developed nations at prices higher than international price levels.

Gadbaw & Richards, *supra* note 3, at 2 (quoting 5 INDUSTRIA FARMACEUTICA LATINO-AMERICANA, *Patentes: la Rambonomio en Accion* 29 (1986).

5. Mansfield, *supra* note 4, at 27. Although economic concerns generally are the driving force behind the degree of protection afforded by developing nations to the intellectual property rights of foreign nationals, indigenous cultural factors occasionally play a role as well. *See* Gadbaw & Richards, *supra* note 3, at 19 (noting that the traditional Chinese cultural custom of copying an artist's or author's work as a means of complimenting the artist or author actually influenced the development of Korean and Taiwanese intellectual property policy).

6. Mansfield, *supra* note 4, at 27.

One consequence of these competing conceptual paradigms[7] has been the emergence of piracy of intellectual property rights in international trade. Increasing United States losses attributable to this phenomenon in world markets[8] force domestic policymakers to reexamine United States treatment of intellectual property rights. This reconsideration has resulted in the enactment of bilateral trade measures, as well as multilateral efforts such as those that failed at the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) to secure increased protection.[9]

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7. This Article does not purport to address the issue of what level of protection intellectual property rights warrant, whether in individual states or in the arena of international trade. On that debate, see generally Carolos Alberto Primo Braga, *The Economics of Intellectual Property Rights and the GATT: A View From the South*, 22 VAND. J. TRANSNAT'L L. 243 (1989); Mansfield, *supra* note 4. Rather, this Article accepts the United States view of protection, *arguendo*, and seeks only to evaluate the efficacy of one United States mechanism, the Special 301 action, as a tool for enforcing strong protection of United States intellectual property rights abroad.

8. In 1986, the value of lost sales resulting from unauthorized copying of United States patented, copyrighted, or trademarked materials amounted to an estimated $25 billion per year. Edwin A. Finn, Jr., *That's the $60 Billion Question*, FORBES, Nov. 17, 1986, at 40. By 1988, this figure exceeded $40 billion. U.S. INT'L TRADE COMM'N, FOREIGN PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND THE EFFECT ON U.S. INDUSTRY AND TRADE, app. H, at H-3 (1988).

Nor is unauthorized copying the only source of loss to United States intellectual property owners. *See, e.g.*, William M. Borchard, *Trademark Piracy at Home and Abroad*, WALL ST. J., May 7, 1991, at A22, col. 3:

> In the 1960s, for example, a swashbuckler named Robert Aries made a career of registering U.S. trademarks—such as the right to use Pepsi-Cola as a trademark for trucks—throughout Western Europe and then ransoming them back to their original U.S. owners. (His mail-order book on avoiding trademark problems had a $2,200 price tag.) Although he ultimately went to jail, it was not for this maneuver, which was perfectly legal.

Id.

Although the United States has succeeded recently in greatly reducing the level of domestic infringement of intellectual property rights, *see generally infra* note 9, this success has been more than offset by these increases in foreign piracy. HELENA STALSON, INTELLECTUAL PROPERTY RIGHTS AND U.S. COMPETITIVENESS IN TRADE 12 (1987).

9. General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. (5) A3, 55 U.N.T.S. 187. The United States also has taken steps recently to provide increased protection of intellectual property rights against domestic infringers. *See, e.g.*, Generic Animal Drug and Patent Term Restoration Act, Pub. L. No. 100-670, 102 Stat. 3971 (1988); Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935; Patent Law Amendments Act of 1984, Pub. L. No. 98-622, 98 Stat. 3383; Trademark Clarification Act of 1984, Pub. L. No. 98-620, 98 Stat. 3335; Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 2178; Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585.

This Article examines the United States most recent bilateral strategy to protect intellectual property—the "Special 301 action." Enacted as part of the Omnibus Trade and Competitiveness Act of 1988,[10] the Special 301 mechanism provides for United States Trade Representative (USTR) investigations of states that deny adequate and effective protection of United States intellectual property rights or deny fair market access to United States citizens who rely on intellectual property protection. The enactment intends to provide the USTR with an effective, bilateral, trade-based weapon for securing good faith negotiations or other actions aimed at providing effective intellectual property protection.[11]

Part One of this Article discusses the historic interaction between United States intellectual property protection and trade measures. It examines three areas of intellectual property law: copyright, trademark, and the emerging sui generis field of semiconductor computer chip technology, where the United States has utilized trade-related measures to attempt to protect United States intellectual property rights abroad.

Part Two of the Article examines the Special 301 mechanism itself. It begins by describing the normal course of a Special 301 action, from the USTR's identification of a "priority" state, through the decision of whether to initiate an investigation, and ultimately, to the imposition of sanctions, or, alternatively, to the termination of proceedings against the state in question. Part Two also examines the actual uses to which the Special 301 action has been put since its enactment.

Part Three develops a framework for evaluating the efficacy of the Special 301 mechanism as a bilateral trade weapon to secure the protection of United States intellectual property rights abroad. It notes that the

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10. Pub. L. No. 100-418, 102 Stat. 1181.

11. *See* Pub. L. 100-418, § 1303(a), 102 Stat. 1107, 1179 (1988):

(1) The Congress finds that—

(A) international protection of intellectual property rights is vital to the international competitiveness of United States persons that rely on protection of intellectual property rights; and

(B) the absence of adequate and effective protection of United States intellectual property rights . . . seriously impede[s] the ability of . . . United States [citizens] that rely on protection of intellectual property rights to export and operate overseas, thereby harming the interest of the United States.

(2) The purpose of [Special 301] is to provide for the development of an overall strategy to ensure adequate and effective protection of intellectual property rights and fair and equitable market access for United States persons that rely on protection of intellectual property rights.

bilateral nature of the Special 301 remedy mandates that a use of the action be narrowly tailored to the particular facts and circumstances of a case. Additionally, Part Three argues that the USTR's application of Special 301 represents an attempt to exercise a significant degree of administrative discretion that, although desirable from a policy standpoint, is unauthorized by Special 301's governing statutory framework. Part Three concludes that the USTR's success in securing increased foreign protection of intellectual property rights suggests that Congress should amend the Special 301 action to provide statutory authority for the highly discretionary approach adopted by the USTR.

II. THE RELATIONSHIP OF UNITED STATES INTELLECTUAL PROPERTY DOCTRINE AND TRADE PROTECTION MECHANISMS

The federal government derives the authority to regulate intellectual property from the Patent Clause[12] and Commerce Clause[13] of the Con-

12. U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . ."). At the time of the Constitution's ratification, "arts" referred to the work of artisans, and therefore meant patent protection. Today, Congress has expanded patent protection to such frontier areas as electronics, biotechnology, and products manufactured in outer space. STALSON, *supra* note 8, at 13, 16. In contrast, the term "science" encompassed philosophy and authorship and therefore, meant copyright protection. Currently, such diverse items as designs, engravings, etchings, photographs and negatives, mechanical recordings, motion pictures, sound recordings, and computer software may receive copyright protection. *Id.* at 13, 17.

13. U.S. CONST., art. I, § 8, cl. 3 (granting Congress the plenary power to "regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes"). The Supreme Court held the first statutory attempts of the United States federal government at regulation of trademarks, the Act of July 8, 1870, ch. 230, § 77, 16 Stat. 198, 210, and the Act of August 14, 1876, ch. 274, 19 Stat. 141, to be an unconstitutional exercise of Congress' patent and copyright power. United States v. Steffens *(The Trade-Mark Cases)*, 100 U.S. 82, 94 (1879) ("The ordinary trade-mark has no necessary relation to invention or discovery [and] requires no fancy or imagination, no genius, [and] no laborious thought."). The Court indicated, however, that such legislation might be permissible if based on the commerce power instead. *Id.* at 95-96.

Reenacting the legislation under the auspices of the commerce clause, Congress initially adhered so literally to its text that it granted the Commissioner of Patents the authority to register only trademarks used in commerce with foreign nations or with Indian tribes. Act of March 3, 1881, ch. 138, 21 Stat. 502. By 1890, however, Congress had taken steps to expand the scope of the law to international trade. Tariff Act of 1890, ch. 1244, § 7, 26 Stat. 567, 613. The 1890 Act laid the foundation for the first modern trademark legislation in 1905, see Act of Feb. 20, 1905, ch. 592, § 27, 33 Stat. 724, 730, which in turn became the core of current statutes. *See generally infra* notes 27-36 and accompanying text. Modern trademark legislation is based upon the 1946 Lanham Act,

stitution. Throughout the years, the driving force behind legislation enacted under these auspices has been the retention of economic benefits for investors of the temporal and financial resources necessary to secure the benefits of innovation. The United States Supreme Court has stated:

> The economic philosophy behind the [Patent Clause] is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in "Science and Useful Arts." Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.[14]

Because the United States traditionally has been concerned more with domestic rather than with foreign infringement,[15] the relationship between trade and regulatory mechanisms and intellectual property rights has long been uncertain at best.[16] Notwithstanding the historical absence of a comprehensive approach incorporating international trade regulation and intellectual property rights, however, federal legislation at times has reflected an awareness that the two properly should be integrated into a common set of strategies.[17] Accordingly, the enactment of measures such as the Special 301 action must be viewed in proper historical perspective. The following sections examine previous congressional efforts, all of which may be superseded by the operation of Special 301, to implement intellectual property goals through trade laws in the areas of copyright, trademark, and the emerging field of semiconductor mask technology.[18]

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60 Stat. 427.

14. Mazer v. Stein, 347 U.S. 201, 219 (1954); *cf.* The FEDERALIST No. 43, at 279 (James Madison) ("The utility of this [authorization for intellectual property legislation] will scarcely be questioned . . . . The public good fully coincides . . . with the claims of individuals.").

15. Arthur Buck, *Copyright, Harmonization and Revision: 'International Conventions on Copyright Law,'* 9 INT'L BUS. LAW. 475, 475 (1981). For a list of recent laws aimed at reducing domestic infringement of intellectual property rights, see *supra* note 9.

16. *See, e.g.*, R. Michael Gadbaw, *Intellectual Property and International Trade: Merger or Marriage of Convenience?*, 22 VAND. J. TRANSNAT'L L. 223, 226-27 (1989):

> Until relatively recently, intellectual property and international trade policies were relegated to distinct and separate spheres. Each was based upon its own set of domestic laws and international agreements, although common principles such as national treatment were central features of the international agreements in both domains. Entirely distinct bureaucracies administered these laws and agreements both at the national and international levels, and their efforts were rarely viewed as requiring coordination, except perhaps in light of foreign political—as distinct from economic—policy considerations.

Id.

17. *Id.* at 226.

18. This Article attempts to examine only those United States laws that on their face

A. *Copyright*

1. The Chace Act

The trend toward protection of the intellectual property rights of United States citizens appeared even before the ratification of the Constitution. Prior to 1787, all states except Connecticut enacted laws protecting copyright holders. Most of these laws, however, extended protection only to United States authors.[19]

The first federal enactment under the Patent Clause, the Copyright Act of 1790, retained this protectionist overtone. Although this legislation provided copyright protection for maps, charts, and books, it only protected the works of United States authors.[20] Congress retained the citizenry requirement for more than a century. In 1891, Congress finally adopted an early bilateral approach through section 13 of the Chace Act of 1891, which established two courses of action for a foreign national seeking to gain United States copyright protection.[21] First, foreign citizens of states providing copyright protection to United States citizens enjoyed reciprocal privileges. Second, the United States government pro-

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integrate intellectual property protection and trade strategies into a single policy. As a result, the Article does not address statutes creating a private right of action for intellectual property owners, such as section 337 of the Tariff Act of 1930 (codified at 19 U.S.C. § 1337 (1988)) (proscribing "unfair methods of competition and . . . importation of articles"), that, although not making specific reference to intellectual property piracy, have been employed in the past by United States intellectual property owners in cases in which there exists a domestic industry relating to the intellectual property rights in question and where the infringing goods have been imported into the United States. *See generally* Paul Victor, *Preventing Importation of Products in Violation of Property Rights*, 53 ANTITRUST L.J. 783, 783 (1984) (examining use of section 337 by patent owners). It is worth noting, however, that the enactment of the Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107, which liberalizes significantly the availability of section 337 actions for intellectual property owners, is likely to lead to increased use of this mechanism in the future.

Given the close procedural relationship between the Special 301 action and its immediate conceptual predecessor, the section 301 action, codified as amended at 19 U.S.C. § 2411-16 (1982 & Supp. V 1987), this Article also does not attempt to undertake a separate examination of the treatment of intellectual property rights in ordinary section 301 investigations prior to 1989.

19. STALSON, *supra* note 8, at 13.

20. Copyright Act of 1790, ch. 15, §§ 1, 5, 1 Stat. 124, 124-25 (denying protection to works "written, printed, or published by any person not a citizen of the United States").

21. Chace Act of 1891, ch. 565, 26 Stat. 1106.

tected works by foreign authors from states that adhered to international agreements with the United States providing for reciprocity.[22] In either case, the President decided the issue of whether sufficient reciprocity existed, but eventually the President established bilateral relations with thirty-five states.[23]

2. The Caribbean Basin Initiative

The 1983 Caribbean Basin Economic Recovery Act[24] discourages the governments of recipient nations from "poaching" and rebroadcasting copyrighted satellite television transmissions by conditioning receipt of benefits on an executive branch finding of an absence of such activity.[25] The Act also authorizes the President to review the extent to which a recipient state's laws provide adequate means for foreign nationals "to secure, exercise, and enforce exclusive rights in intellectual property."[26] Therefore, as amended, the Caribbean Basin Initiative represents another trade-based weapon directed towards protecting United States

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22. *Id.* § 13, 26 Stat. at 1110.

23. *Oversight on International Copyrights: Hearings before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary*, 98th Cong., 2d Sess. 30 (1984) (Report of the U.S. Copyright Office) [hereinafter *Senate Hearings*].

Despite this apparent liberalization, Congress retained two effective barriers to foreign authors. First, the Chace Act mandated compliance by all authors with the procedural requirements of the United States Copyright Office. Chace Act of 1891, § 3, 26 Stat. at 1107. The practical effect of this stipulation was that the intricacies of United States law and the significant distances that foreign authors had to travel to Washington substantially disadvantaged them vis-a-vis United States citizens. *Senate Hearings, supra*, at 30.

Second, the Chace Act maintained a requirement that authors deposit two copies, both of which were manufactured in the United States, of each work in the Library of Congress. Chace Act of 1891, § 3, 26 Stat. at 1107. Moreover, the Chace Act took the additional step of prohibiting the importation of foreign works not manufactured in the United States. *Id.* § 3, 26 Stat. at 1107-08. This so-called "manufacturing clause" had the practical effect of denying copyright protection to most English language works of United States authors printed abroad. STALSON, *supra* note 8, at 17. Although Congress slightly weakened the manufacturing clause following its enactment, *see, e.g.*, The Copyright Act of 1909, ch. 320, § 8, 35 Stat. 1075, 1077 (allowing foreign authors to copyright work in the absence of a presidential finding of reciprocity, providing that the author's residence was within the United States at the time of the first publication of the work in question), it remained substantially in place until June 1986, when authority for it finally lapsed. This removed a major impediment to United States entry into the Berne Convention. STALSON, *supra* note 8, at 17.

24. Pub. L. No. 98-67, 97 Stat. 369.

25. *See* 19 U.S.C. § 2702(c)(9) (1988); *see also* 19 C.F.R. § 10.191-.198 (1989).

26. 19 U.S.C. § 2702(c)(9) (1988).

rights abroad.

B. *Trademark*

The principle of utilizing trade mechanisms to protect trademark owners from counterfeiting marks emerged early in the development of United States policy towards trademarks.[27] Nine years after the enactment of the first successful trademark legislation,[28] the Fifty-First Congress enacted legislation barring the importation of articles that copy or simulate the name or registered trademark of domestic manufacturers.[29] Subsequently, Congress reenacted language from this legislation in 1897[30] and 1905.[31]

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27. Under current law, section 42 of the Lanham Act protects mark holders against foreign counterfeiting. It provides that "no article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacture, or manufacturer, or trader . . . shall be admitted to entry at any customhouse of the United States." 15 U.S.C. § 1124 (1988). Title II, sections 211(a), (c) of the Customs Procedural Reform and Simplification Act of 1978, Pub. L. 95-410, 92 Stat. 888, 903 (codified at 19 U.S.C. § 1526(e) (1988)), grants additional protection for trademark holders against counterfeit imports:

> Any . . . merchandise bearing a counterfeit mark (within the meaning of section 1127 of title 15) imported into the United States in violation of the provisions of section 1124 of title 15, shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws.

In turn, the Lanham Act defines a counterfeit as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark." 15 U.S.C. § 1127 (1988). If a seizure occurs, the Secretary of the Treasury is instructed to obliterate the trademark and dispose of the goods by distributing them to federal, state, and local agencies and eleemosynary institutions that have a need for the merchandise. 19 U.S.C. § 1526(e) (1988).

28. *See generally supra* note 13.

29. Tariff Act of 1890, ch. 1244, § 7, 26 Stat. 567, 613. The relevant text reads "[t]hat on and after March first, eighteen hundred and ninety-one, no article of imported merchandise which shall copy or simulate the name or trade-mark of any domestic manufacture or manufacturer, shall be admitted to entry at any custom-house of the United States."

30. Tariff Act of 1897, ch. 11, § 11, 30 Stat. 151, 207.

31. The relevant text of the 1905 Act further added a bilateral element in the provision:

> That no article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or manufacturer or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark registered in accordance with the provisions of this Act, or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or

In 1922, the Sixty-Seventh Congress augmented the availability of trade remedies for mark owners. In response to a decision from the United States Court of Appeals for the Second Circuit interpreting the language of the 1905 Act,[32] Congress added section 526 as an amendment to the Tariff Act of 1922.[33] This section established a unilateral trade mechanism[34] that proscribed the importation of any foreign manufacture's merchandise that bears a registered trademark without the written consent of the owner.[35] It remains in force today.[36]

C. *Semiconductor Mask Technology*

The Semiconductor Chip Protection Act of 1984 (SCPA)[37] reaffirmed congressional commitment to the use of trade mechanisms as weapons against piracy in international markets. SCPA established a bilateral reciprocity statute aimed at increasing protection for the United States semiconductor industry. Pursuant to its terms, foreign manufacturers can

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locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any custom-house of the United States.

Act of Feb. 20, 1905, ch. 592, § 27, 33 Stat. 724, 730.

32. A. Bourjois & Co. v. Katzel, 275 F. 539 (2d Cir. 1921), *rev'd,* 260 U.S. 689 (1923).

33. Pub. L. No. 67-318, 42 Stat. 975 (1922).

34. In light of the congressional confusion surrounding passage of section 526, see *supra* note 31, the Federal Circuit has concluded that the statute should be regarded exclusively as a trade remedy rather than as an intellectual property remedy. *See* Vivitar Corp. v. United States, 761 F.2d 1552, 1563 (Fed. Cir. 1985) (five judge panel), *cert. denied,* 474 U.S. 1055 (1986).

35. For the amendment's current formulation, see 19 U.S.C. § 1526(a) (1988).

36. Historically, section 526 has been the focus of trademark holders' efforts to battle the operation of the gray market, in which authentic trademarked products are imported into the United States outside the goods' normal chains of distribution. *See generally* Theodore H. Davis, Jr., Comment, *Applying Grecian Formula to International Trade:* K Mart Corp. v. Cartier, Inc. *and the Legality of Gray Market Imports,* 75 VA. L. REV. 1397 (1989).

Unlike trademark holders, copyright owners affected by gray market imports have been able to avail themselves of recent federal legislation to restrict importation of the goods in question. *See, e.g.,* Columbia Broadcasting Sys. v. Scorpio Music Distrib., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.,* 738 F.2d 424 (3d Cir. 1984) (employing 17 U.S.C. § 602(a) (1988) to prevent importation of gray market copyrighted articles). Similarly, section 337 of the Tariff Act of 1930 (codified at 19 U.S.C. § 1337 (1988)), generally protects patent owners from gray market imports. Victor, *supra* note 18, at 783.

37. Pub. L. No. 98-620, 98 Stat. 3347 (codified at 17 U.S.C. §§ 901-14 (1988)).

enjoy United States protection of their products only if their home state provides comparable protection to United States citizens.

The SCPA establishes two avenues for foreign nationals seeking to secure protection. First, section 902(a)(2)[38] authorizes the issuance of a Presidential Proclamation, which provides for permanent protection of foreign semiconductor technology if the President finds that the foreign state in question offers substantially the same protection for United States technology as it does for domestic technology or provides the same protection afforded by United States law.[39] Foreign nationals can secure protection under this section if their state signs a treaty protecting semiconductor works to which the United States is a party.[40]

Second, section 914 of the SCPA[41] establishes an interim procedure whereby foreign nationals can secure protection if three conditions are met: (1) their native state is making good faith efforts and reasonable progress towards legislation or treaties aimed at protecting United States products; (2) citizens of the foreign state are not engaged in piracy of United States products; and (3) the purposes of the SCPA would be furthered.[42] These requirements effectively give section 914 a much stronger procedural and substantive reciprocity orientation than its section 902 counterpart.[43]

III. THE SPECIAL 301 ACTION: PROCEDURES AND APPLICATIONS

A. *Procedures*

The typical procedural course taken by a Special 301 action has two phases. This section examines both in detail.

1. The Special 301 Priority Determination

Invocations of the Special 301 action originate in the annual National Trade Estimate Report (NTE Report) mandated by section 2241 of the Trade Act.[44] This section requires the USTR to submit a report each year to the President and appropriate congressional committees by

38. Codified at 17 U.S.C. § 902(a)(2) (1988).
39. *Id.*
40. *Id.*
41. Codified at 17 U.S.C. § 914 (1988).
42. *Id.* § 914(a) (1-3).
43. Gadbaw, *supra* note 16, at 237.
44. 19 U.S.C. § 2241 (1988).

March 31[45] detailing practices of foreign states that, among other things, erect "significant barriers to, or distortions of" United States exports of products protected by trademarks, patents, or copyrights.[46] Within thirty days of the submission of the NTE Report, the USTR must designate those states eligible for Special 301 treatment. States run the risk of this identification if their policies or practices fall into one of two categories.

First, the USTR must designate for possible Special 301 action those foreign states that deny adequate and effective protection of intellectual property rights.[47] For the purposes of Special 301:

> A foreign country denies adequate and effective protection of intellectual property if the foreign country denies adequate and effective means under the laws of the foreign country for persons who are not citizens or nationals of such foreign country to secure, exercise, and enforce rights relating to patents, process patents, registered trademarks, copyrights, and mask works.[48]

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45. *Id.* § 2241(b)(1). For 1989, the NTE Report due date was April 30. *Id.*

46. Pursuant to 19 U.S.C. § 2241, the NTE Report shall:

> (A) identify and analyze acts, policies, or practices of each foreign country which constitute significant barriers to, or distortions of—
> (i) United States exports of goods or services (including . . . property protected by trademarks, patents, and copyrights exported or licensed by United States persons), and
> . . . .
> (B) make an estimate of the trade-distorting impact on United States commerce of any act, policy, or practice identified under subparagraph (A); and
> (C) make an estimate, if feasible, of—
> (i) the value of additional goods and services of the United States . . .
> . . . .
> that would have been exported to . . . each foreign country during [the previous] calendar year if each of such acts, policies, and practices . . . did not exist.

47. 19 U.S.C. § 2242(a)(1)(A) (1988).

48. *Id.* § 2242(d)(2); *cf.* H.R. REP. No. 1090, 98th Cong., 2d Sess. 1 (1984), *reprinted in* 1984 U.S.C.C.A.N. 5101. This report defined "adequate and effective" for purposes of linking intellectual property protection to the receipt of benefits under the Generalized System of Preferences Renewal Act of 1984. It stated:

> In order to determine whether a country is providing "adequate and effective [protection]" [of] intellectual property, the President should consider, among other factors, the extent of statutory protection for intellectual property (including the scope and duration of such protection), the remedies available to aggrieved parties, the willingness and ability of the government to enforce intellectual property rights on behalf of foreign nationals, the ability of foreign nationals effectively to enforce their intellectual property rights on their own behalf, and whether the country's system of law imposes formalities or similar requirements that, in practice, are an obstacle [to] the meaningful protection for foreign nationals not imposed on domestic concerns.

Alternatively, a state may receive Special 301 treatment if its laws deny fair and equitable market access to United States nationals that rely on intellectual property protection.[49] To ascertain whether this situation exists with respect to a particular state, the USTR must determine if the state under scrutiny denies access to markets for products protected by copyrights, patents, or process patents through laws, procedures, practices, or regulations that: (1) violate provisions of international law or agreements to which both the United States and the foreign state are parties;[50] or (2) constitute discriminatory nontariff barriers.[51] Identification under this prong is possible only if the USTR determines that a factual basis exists for finding a denial of fair and equitable market access.[52]

After identifying states eligible for Special 301 treatment, the USTR then designates priority states.[53] Only those states that have "the most onerous or egregious acts, policies, or practices" will be considered priority states.[54] These acts, policies, or practices must have the "greatest adverse impact (actual or potential) on the relevant United States products."[55] A designated state, however, will be exempt from Special 301 treatment if the USTR finds that the state either enters into good faith negotiations or, alternatively, makes "significant progress" in bilateral or multilateral negotiations to provide increased protection for intellectual property rights.[56]

H.R. REP. NO. 1090, at 12-13, *reprinted in* 1984 U.S.C.C.A.N. at 5112-13.

49. 19 U.S.C. § 2242(a)(1)(B). For the purposes of Special 301:

> The term "persons that rely upon intellectual property protection" means persons involved in—
>
> (A) the creation, production or licensing of works of authorship (within the meaning of sections 102 and 103 of Title 17) that are copyrighted, or
>
> (B) the manufacture of products that are patented or for which there are process patents.

Id. § 2242(d)(1).

50. *Id.* § 2242(d)(3)(A).

51. *Id.* § 2242(d)(3)(B).

52. *Id.* § 2242(b)(3).

53. *Id.* § 2242(a)(2). Although the USTR ultimately determines whether a given state should be considered a priority state for the purposes of a Special 301 action, section 2242(b)(2) mandates consultation with the Register of Copyrights, the Commissioner of Patents and Trademarks, and "other appropriate officers of the Federal Government," as well as consideration of information contained in the NTE Report and in petitions submitted by interested parties. 19 U.S.C. § 2242(b)(2).

54. *Id.* § 2242(b)(1)(A).

55. *Id.* § 2242(b)(1)(B).

56. *Id.* § 2242(b)(1)(C).

2. The Section 301 Investigation Under Special 301

Once the USTR designates a foreign state as a priority state, section 2412(b)(2)(A)[57] requires the USTR to initiate an unfair trade practices investigation pursuant to the procedures contained in section 301 of the Trade Act of 1974[58] within thirty days, but only if no progress can be made through consultations with the foreign government.[59] Two possible qualifications affect this mandatory language: first, the USTR is not required to begin an investigation if the investigation would be detrimental to United States economic interests;[60] and second, the USTR has discretion to determine whether an investigation would be effective in addressing the questionable foreign practice.[61]

Unlike the more typical section 301 investigation,[62] which has a twelve to eighteen month timetable,[63] a section 301 investigation stem-

57. 19 U.S.C. § 2412(b)(2)(A) (1988).

58. For the procedural framework for section 301 actions, see 19 U.S.C. § 2411-16 (1988).

59. Prior to the mandatory self-initiation of a section 301 investigation of priority states under Special 301, the USTR was, and remains, authorized to initiate investigations in response to petitions from interested parties or on a discretionary self-initiated motion. *See* 19 U.S.C. § 2412(a)-(b). On the use of this type of section 301 investigation since the enactment of the Special 301 action, see *infra* notes 95-97 and accompanying text.

The Special 301 action is not the first congressional attempt to employ the section 301 mechanism against United States trading partners whose weak intellectual property laws lend themselves to piracy. Section 503(c)(5) of the Trade Act of 1984, Pub. L. No. 98-573, 98 Stat. 2948 (codified at 19 U.S.C. § 2462(c)(5) (1988)), which required the President to take into account the protection afforded to United States intellectual property rights by a foreign nation when determining that nation's eligibility for the Generalized System of Preferences Program (GSP Program), also identified this protection as a factor in whether the nation's trade practices should be considered "unjustifiable" or "unreasonable" for purposes of a section 301 action. At the time of Special 301's passage, four of the top five beneficiary states under the GSP Program had entered into agreements with the United States, all pledging to improve protection of intellectual property rights to some degree. Gadbaw & Richards, *supra* note 3, at 23 n.22.

60. 19 U.S.C. § 2412(b)(2)(B). If the USTR declines to initiate an investigation pursuant to this provision, the USTR must submit to Congress a written report setting forth both the reasons for the determination and the United States economic interests that would be affected adversely. *Id.* § 2412(b)(2)(C).

61. *Id.* § 2412(c).

62. Because section 301 investigations themselves are governed by section 302 of the Trade Act of 1974, 19 U.S.C. § 2412 (1988), often they are referred to as Section 302 investigations. This Article adopts the former nomenclature.

63. 19 U.S.C. § 2414(a)(2).

ming from a Special 301 priority designation is conducted under a six month "fast-track" system.[64] Upon the conclusion of the investigation, the USTR then determines whether to subject that state to a broad range of specified trade-based retaliatory mechanisms within six months.[65] Foreign actions targeted by the section 301 investigation generally fall into two categories.

First, policies or practices of foreign governments under investigation are within the ambit of section 301 if they violate the provisions of a trade agreement or deny benefits to the United States under a trade agreement.[66] Generally, the USTR has interpreted the term "trade agreement" narrowly to include only the GATT and trade agreements approved under section 3(a) of the Trade Agreement Act of 1979.[67] Therefore, it is unlikely that this prong will lead to retaliatory sanctions against a Special 301 priority state.[68]

Under the second set of requirements for imposing retaliatory trade sanctions, a foreign state's action comes within the ambit of an actionable violation if it is "unjustifiable and burdens or restricts United States commerce."[69] Alternatively, any foreign action unreasonable or discriminatory, as well as burdensome on United States commerce, is subject to retaliation.[70] For the purposes of section 301 investigations, a foreign practice will be deemed unreasonable if it denies adequate and effective

64. *Id.* § 2414(a)(3)(A).

65. 19 U.S.C. § 2411-16 (1988).

66. *Id.* § 2411(a)(1)(B)(i) (1988).

67. 19 U.S.C. § 2503(a) (1988). The general lack of provisions in these agreements for the protection of intellectual property greatly diminishes their usefulness in this context. Trade agreements recognized by the USTR's office for the purposes of Section 301 actions include the following: General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. (5) A3, 55 U.N.T.S. 187; Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, Apr. 12, 1979, T.I.A.S. No. 10,402; Agreement on Government Procurement, Apr. 12, 1979, T.I.A.S. No. 10,403; Agreement on Import Licensing Procedures, Apr. 12, 1979, 32 U.S.T. 1585; Agreement on Technical Barriers to Trade, Apr. 12, 1979, 31 U.S.T. 405; Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade, Apr. 12, 1979, 31 U.S.T. 513; Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade, Apr. 12, 1979, 31 U.S.T. 4919; Agreement on Trade in Civil Aircraft, Apr. 12, 1979, 31 U.S.T. 619. As currently constituted, the GATT does not attempt to provide trade-based protection of intellectual property rights.

68. At the time of Special 301's enactment, most section 301 actions involved trade agreements under this prong. Judith Bello & Alan Holmer, *Significant Recent Developments in Section 301 Unfair Trade Cases*, 21 INT'L LAW. 211, 213 n.13 (1987).

69. 19 U.S.C. § 2411(a)(1)(B)(ii).

70. *Id.* § 2411(b)(1).

protection of intellectual property rights.[71] Similarly, unjustifiable foreign practices under section 301 include those acts or policies that deny the "right of establishment or protection of intellectual property rights."[72] Discriminatory foreign action includes the implementation of discriminatory tariff barriers, which fulfill the third requirement.[73]

As a practical matter, an investigation of a Special 301 priority state is likely to result in a finding that the state's practices satisfy one, if not all three, of the requirements for an imposition of sanctions. At the threshold, if the USTR determines during the initial Special 301 proceedings that the foreign action in question constitutes an "onerous or egregious" act with the "greatest adverse impact . . . on the relevant United States products,"[74] the practice probably will qualify as a "burden" on United States commerce. This conclusion is consistent with previous United States findings in section 301 investigations prior to 1988 that a foreign state's inadequate protection of intellectual property rights satisfies the requirement.[75]

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71. *Id.* § 2411(d)(3)(B)(i)(II).

72. *Id.* § 2411(d)(4)(B).

73. 19 U.S.C. § 2242(d)(3)(B). Pursuant to this section, however, a foreign state's practices may qualify as denying fair and equitable market access to United States nationals through the violation of provisions of international law or international agreements to which both the United States and the foreign state are parties. *Id.* § 2242(d)(3)(A). The general moribundity of these agreements in the area of intellectual property renders it more likely that a foreign state falling into this category has done so through discriminatory tariff barriers.

74. *See supra* notes 52-54 and accompanying text.

75. *See, e.g.*, Adequacy of Korean Laws for the Protection of Intellectual Property Rights, 50 Fed. Reg. 45,833 (Office of the U.S. Trade Representative 1985). This action provides an example of the potential effectiveness and inherent limitations of section 301 investigations in securing increased foreign protection of intellectual property rights. In 1985, President Reagan initiated a section 301 investigation in response to South Korea's inadequate protection of United States intellectual property rights. Although the investigation ultimately resulted in an agreement by the Korean government to enact new and improved copyright, patent, and trademark laws, the initial Korean reaction to the investigation was to extend protection to technology originating in the United States, but to deny it to that generated in other states. This resulted in significant distortions of trade. Ashoka Mody, *New International Environment for Intellectual Property Rights, in* INTELLECTUAL PROPERTY RIGHTS IN SCIENCE, TECHNOLOGY, AND ECONOMIC PERFORMANCE: INTERNATIONAL COMPARISONS, *supra* note 4, at 203, 224-25. For details of the new Korean laws, see generally Judith Bello & Alan Holmer, *Section 301 of the Trade Act of 1974: Requirements, Procedures, and Developments*, 7 NW. J. INT'L L. & BUS. 633, 662-64 (1986).

Once the USTR initiates a section 301 investigation stemming from Special 301 proceedings, the USTR has six months to determine what action, if any, to take in response to the practices of the foreign state in question. If the USTR finds that the practices fulfill the criteria outlined above, the range of discretionary trade-based weapons is broad. Pursuant to section 2411(c)(1), a USTR, within thirty days of determining that an actionable violation exists[76] and subject to the direction of the President, may:[77]

> (A) suspend, withdraw, or prevent the application of, benefits of trade concessions . . .; (B) impose duties or other import restrictions on the goods of, and, notwithstanding any other provision of law, fees or restrictions on the services of, such foreign country . . .; or (C) enter into binding agreements with such foreign country that commit . . . [it to] (i) eliminate, or phase out the [unfair] act, policy, or practice . . ., (ii) eliminate any burden or restriction on United States commerce resulting from such act, policy, or practice, or (iii) provide the United States with compensatory trade benefits that . . . are satisfactory.[78]

Under these criteria, any goods from the foreign state in question may be subject to a retaliatory action, regardless of whether those goods were involved in the practice leading to the imposition of sanctions.[79]

The USTR is not required to take action under a number of circumstances. For example, the priority state's agreement to eliminate the practice in question or to eliminate the burden or restriction on United States commerce will protect it from actual retaliation.[80] Also, if eliminating the offending practice is impossible for the foreign state, the USTR may accept alternative compensatory trade benefits.[81] Moreover, the statute precludes sanctions if retaliatory action would have an adverse effect on the United States economy substantially out of proportion to the benefits of the action.[82] Finally, the need to avoid serious harm to United States national security constrains any action taken.[83]

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76. 19 U.S.C. § 2415(a) (1988).
77. 19 U.S.C. § 2411(a)(1).
78. *Id.* § 2411(c)(1).
79. *Id.* § 2411(c)(3)(B).
80. *Id.* § 2411(a)(2)(B)(ii).
81. *Id.* § 2411(a)(2)(B)(iii).
82. *Id.* § 2411(a)(2)(B)(iv).
83. *Id.* § 2411(a)(2)(B)(v). The USTR may delay implementation of retaliatory action when: (i) the majority of the representatives of the domestic industry that would benefit from the action request a delay; (ii) the USTR determines that substantial pro-

B. *Applications to Date*

Because a state's priority status under a Special 301 determination largely hinges upon the USTR's finding that the state's laws provide an egregiously low level of protection for United States intellectual property rights and have a substantial adverse impact on United States trade, a Special 301 priority state's practices doubtfully will ever fail to satisfy the standards necessary for the imposition of retaliatory sanctions. Consequently, the literal text of the Special 301 mechanism suggests that its implementation would have resulted in a substantial increase in sanctions against states lacking minimal levels of intellectual property protection.

No such increase, however, has occurred. Perhaps more surprisingly, the USTR declined to designate a single state for Special 301 priority treatment during the year following its enactment. Consequently, the swift imposition of retaliatory trade sanctions envisioned by Congress initially remained more of a threat than an actual weapon.

In large part, this result stems from the USTR's interpretation of the Special 301 mechanism. In her first invocation of the Special 301 provision on April 25, 1989, USTR Carla Hills did not target any priority states for investigation and possible retaliation.[84] Rather, she announced that twenty-five states would be placed on a two-tiered "watch list," which required them to make progress on intellectual property reform to avoid future priority designation and sanctions.[85] The first tier of the watch list, the priority category, contained states required to demonstrate progress in enumerated areas within 150 days of the announcement.[86] The second tier of the list contained states asked to step up efforts to improve intellectual property reform.[87] Pursuant to the announcement, the listed states faced becoming the subject of an actual investigation

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gress is being made; or (iii) where a delay is necessary to obtain a satisfactory solution to the situation. 19 U.S.C. § 2415(a)(2).

84. *USTR Defends Administration's Naming of Japan, India, Brazil Under Super 301*, 6 Int'l Trade Rep. (BNA) No. 22, at 684, 684 (May 31, 1989).

85. The 25 states were Argentina, Brazil, Canada, Chile, China, Colombia, Egypt, Greece, India, Indonesia, Italy, Japan, Malaysia, Mexico, Pakistan, the Philippines, Portugal, Saudi Arabia, South Korea, Spain, Taiwan, Thailand, Turkey, Venezuela, and Yugoslavia. *Id.*

86. These states included Brazil, China, India, Mexico, Saudi Arabia, South Korea, Taiwan, and Thailand. *Id.* The date for a demonstration of progress was set on November 1, 1989.

87. These states included Argentina, Canada, Chile, Colombia, Egypt, Greece, Indonesia, Italy, Japan, Malaysia, Pakistan, the Philippines, Portugal, Spain, Turkey, Venezuela, and Yugoslavia. *Id.*

should they abandon good faith negotiations or fail to make significant progress in bilateral or multilateral negotiations in the intellectual property area.[88]

USTR Hills reaffirmed this two-tiered approach in her first six-month reexamination of the Special 301 mechanism.[89] On November 1, 1989, she again declined to designate priority states for the purpose of section 301 investigations. Once again, Hills placed the states with the most egregiously deficient protection of intellectual property only on a priority watch list.[90] Moreover, this pattern continued through the April 27, 1990 reexamination, when USTR Hills again declined to target any of the states on the priority watch list for investigation, despite concluding that the protection afforded to intellectual property owners in some nations was " 'below international standards and a cause for concern.' "[91] Therefore, the USTR's interpretation of Special 301 provides an administrative escape clause.

Use of the watch list system did not result in a lack of progress in negotiations with the states named on the watch list. By the end of the six-month period following the first Special 301 announcement, three of the eight states originally on the priority watch list, Taiwan, Korea, and Saudi Arabia, had made sufficient progress towards reforming their laws to secure downgrading to the second tier of the watch list.[92] Similarly, in early 1990, the USTR removed Mexico following the Mexican government's commitment to seek stronger patent laws.[93] Consequently, by the

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88. *Id.*

89. *See Hills Removes Taiwan, Korea, Saudi Arabia From Priority List, Five Countries Remain*, 6 Int'l Trade Rep. (BNA) No. 44, at 1436 (Nov. 8, 1989).

90. These states were Brazil, India, Mexico, the People's Republic of China, and Thailand. *Id.* at 1436.

91. *Hills, Citing Significant Progress, Declines to Name Countries Under Special 301 Provision*, 7 Int'l Trade Rep. (BNA) No. 18, at 616, 616 (May 2, 1990).

92. *Id.* The USTR removed the states from the priority watch list for a variety of reasons. The USTR noted that Saudi Arabia had pledged to enact a copyright law compatible with the Berne Convention, was in the process of improving protection for computer software, and was clarifying the protection afforded to sound recordings. *Id.* In contrast, Taiwan and Korea had won USTR approval of their initiatives to combat piracy of intellectual property rights through increased enforcement of existing laws. *Id.*

93. *Mexico's New Patent Protection Plan Will Take It Off Special 301 Priority List*, 7 Int'l Trade Rep. (BNA) No. 5, at 147, 147 (Jan. 31, 1990). The Mexican government announced that it would seek legislation to expand the patent term under its laws to 20 years from the date of filing; offer patents to developers of alloys, chemical and pharmaceutical products, and biotechnology processes; restrict compulsory licenses; provide transitional patent protection; strengthen trade secret protection; and modify its trademark rules. *Id.*

end of the mechanism's first year, the threat of Special 301 actions had produced concessions from four of the eight states originally targeted under its provisions.[94]

The absence of actual investigations and retaliatory actions under Special 301, however, did not prevent the United States from penalizing states that completely failed to enact or enforce adequate intellectual property laws. More than a year after USTR Hills' first determination on April 25, 1989, the United States formally designated three states—China, India, and Thailand—as "priority foreign countries,"[95] warranting a Special 301 investigation. On December 24, 1990, USTR Hills announced the initiation of an ordinary section 301 investigation[96] into Thailand's enforcement of its domestic copyright legislation following receipt of a petition from several United States industry organizations.[97] Similarly, on March 15, 1991, the USTR's office initiated a section 301 investigation of Thailand's patent law to determine whether retaliatory action was justified under the Trade Act of 1974.[98] Thus, although generally reluctant to invoke Special 301, the USTR continues

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94. The four remaining states were Brazil, China, India, and Thailand. Of these, China subsequently enacted a new copyright law providing increased protection for sound recordings and computer software. *Six Parties Comment on 17 Countries in Second Round Under Special 301 Provision*, 7 Int'l Trade Rep. (BNA) No. 9, at 300, 300 (Feb. 28, 1990) [hereinafter *Six Parties Comment*]. This action, however, failed to save China from designation six months later as a possible target for Special 301 action. *See infra* note 95 and accompanying text.

These concessions—and the lack thereof from those states not named to the priority watch list—were hardly sufficient to placate United States intellectual property owners seeking actual employment of Special 301. *See generally Six Parties Comment, supra; Senators, Copyright Industries Criticize Thailand's Alleged Failure to Stop Piracy*, 7 Int'l Trade Rep. (BNA) No. 24, at 854 (June 13, 1990) (describing various comments by United States intellectual property owners received by the USTR in connection with the determination of which states should be subject to Special 301 action in 1990).

95. Although focusing on these states' lack of protection for pharmaceutical products, the USTR also based her decision on their broad compulsory licensing provisions and a lax enforcement of counterfeiting laws that had led to widespread piracy of all forms of intellectual property. This decision, however, did not constitute an abandonment of the watch-list structure; the same announcement added the European Community, Brazil, and Australia to the priority watch list. *USTR Designates China, India, and Thailand Most Egregious Violators Under Special 301*, 8 Int'l Trade Rep. (BNA) No. 18, at 643, 643 (May 1, 1991).

96. On the ordinary section 301 investigation, see *infra* notes 109-111 and accompanying text.

97. *See USTR Announces Section 301 Probe of Thailand's Copyright Protections*, 41 Pat. Trademark & Copyright J. (BNA) No. 1012, at 212 (Jan. 3, 1991).

98. *See* Initiation of Section 302 Investigation, 56 Fed. Reg. 11,815 (Office of the U.S. Trade Representative 1991).

to employ more traditional trade-related measures to protect United States intellectual property rights.

IV. The Special 301 Mechanism: Establishing An Evaluative Framework

As enacted, the Special 301 action suggests an emerging consensus between United States industry and government concerning the relationship between international trade and intellectual property rights.[99] First, Special 301 represents an agreement that the protection of intellectual property rights via trade mechanisms need to target United States competitiveness.[100] Second, the Special 301 mechanism indicates that the United States will insist that foreign states in which United States firms operate, adopt, and enforce certain minimum standards of intellectual property protection.[101] Third, Special 301 conditions receipt of trade and other commercial concessions upon foreign states' adherence to these standards.[102] Finally, negotiations under Special 301 have promoted the ratification of these standards in international agreements, guaranteeing enforceability under both domestic and international law.[103]

Notwithstanding these features, however, the bilateral nature of Special 301 imposes limitations on its effectiveness by requiring negotiations with other states. In any bilateral negotiation, the potential short-term economic loss for a developing state whose intellectual property laws encourage piracy will generally equal the amount of revenue generated by pirate companies within its borders.[104] Because intellectual property pirates do not prey solely upon United States nationals in the developing state, whether the United States gains from the elimination of the piracy will outweigh the losses to the developing states depends on the particular price elasticity of the product in question.[105] This guarantees that

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99. *See generally* Gadbaw, *supra* note 16, at 226.

100. *Id.*

101. *Id.*

102. *Id.*

103. *Id.* For example, prior to the enactment of Special 301, Singapore's lenient laws allowed pirates to control virtually all record and videotape sales made in the state, with estimated losses to United States intellectual property owners at approximately $250 million annually. Faye Rice, *How Copycats Steal Billions*, FORTUNE, Apr. 22, 1991, at 157. In contrast, by 1989, negotiations between the USTR and Singapore had resulted in a reduction of counterfeit sales to less than 5% of sales in that state, with a concomitant increase in legitimate sales to $465 million annually. *Id.*

104. Gadbaw & Richards, *supra* note 3, at 27 n.27.

105. *Id.* If price elasticities of demand for the product are sufficiently less than one, United States intellectual property owners may be able to capture additional revenues

negotiating strategies of both the United States and the foreign state will be drawn very specifically to the particular facts and circumstances of situation.

Special 301 also has the potential to distort international trade in a manner that has effects far beyond the United States and the offending foreign states in question.[106] By imposing its own rules concerning the appropriate level of protection for intellectual property rights, the United States effectively forces its trading partners to adopt methods of protection that may or may not be the most desirable or efficient for those states.[107] Moreover, adherence to these standards may influence detrimentally the future rules and mechanisms for the international protection of intellectual property contained in agreements such as the GATT.[108]

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from price increases, thereby potentially gaining more revenue than the developing state loses. *Id.*

106. Mody, *supra* note 75, at 225. For a description of this distorting effect in the context of a United States Section 301 action in response to deficient Korean laws protecting intellectual property, see generally *supra* note 69.

107. Mody, *supra* note 75, at 225.

108. *Id.* Although an examination of existing multilateral agreements protecting intellectual property is beyond the scope of this Article, it should be noted that the United States currently pursues both a bilateral and multilateral approach to the protection of intellectual property in international markets. *Administration Statement, supra* note 1, at 507. As part of its multilateral strategy, the United States has announced that it will:

> (1) seek to conclude, in the [now failed Uruguay] GATT round of multilateral trade negotiations, an enforceable multilateral trade agreement against trade-distorting practices arising from inadequate national protection of intellectual property. . . .
>
> (2) work to resolve persistent problems of counterfeiting by seeking the early adoption of a GATT Anti-counterfeiting Code and to strengthen existing standards through the World Intellectual Property Organization.
>
> (3) seek commitments by adherents to existing international intellectual property agreements to provide—through trade-based agreements where appropriate—adequate enforcement, transparency of governmental actions and regulations and a commitment not to use intellectual property laws to distort international trade.
>
> (4) work for increased protection under the Paris convention and vigorously pursue U.S. accession to the Berne Convention.
>
> (5) improve protection for new and evolving technologies such as biotechnology and semiconductor-chip designs.
>
> (6) oppose erosion of protection under existing international treaties and agreements.
>
> (7) pursue greater adherence to agreements to reduce the burden and expense to U.S. intellectual property owners of filing for protection in a large number of countries.

Therefore, the Special 301 mechanism should be used to cultivate a carefully defined course of action heavily dependent on the special circumstances of individual cases. Perhaps in recognition of this need, the ordinary section 301 actions vest considerable political discretion in the President and the USTR. The USTR can decline to initiate investigations for policy reasons, even if the act, policy, or practice in question conflicts with section 301 as a matter of law.[109] Similarly, the President can decline to act altogether, provided that the President records the reasons for the decision in the Federal Register.[110] Thus, section 301 actions have a flexibility that differentiates them from other statutory trade remedies, such as antidumping and countervailing duty laws.[111]

Whether the Special 301 action retains this degree of flexibility is doubtful. As previously indicated, section 2412(b)(2)[112] provides that within thirty days of a state's designation as a Special 301 priority state, "the Trade Representative *shall* initiate an investigation" under section 301.[113] Although the USTR is given two limited discretionary exemptions from initiating investigations under this section, the language governing these exemptions does not lend itself to consideration of the broad policy factors necessary for the effective use of a bilateral trade weapon. Furthermore, the USTR has not sought to interpret it as doing so.[114]

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(8) engage our trading partners in discussing the idea of establishing a multilateral or regional patent office. . . .

Id.

For comprehensive examinations of United States efforts at the failed Uruguay Round, see generally R. Michael Gadbaw & Rosemary E. Gwynn, *Intellectual Property Rights in the New GATT Round*, in *Intellectual Property Rights: Global Consenus, Global Conflict*, *supra* note 3, at 38; Robert W. Kastenmeier & David Beier, *International Trade and Intellectual Property: Promise Risk, and Reality*, 22 VAND. J. TRANSNAT'L L. 285 (1989); Hans Peter Kunz-Hallstein, *The United States Proposal for a GATT Agreement on Intellectual Property and the Paris Convention for the Protection of Intellectual Property*, 22 VAND. J. TRANSNAT'L L. 265 (1989); *United States Proposal to GATT Concerning Intellectual Property Rights*, 4 Int'l Trade Rep. (BNA) No. 43, at 1371 (Nov. 4, 1987); Mark L. Damschroder, United States Goals in the Uruguay Round, 21 VAND. J. TRANSNAT'L L. 367 (1988).

For an examination of the effect of the United States employment of Special 301 on negotiations at the Uruguay Round, see *infra* note 119 and accompanying text.

109. Bello & Holmer, *supra* note 75, at 647.

110. *See id.* at 652-53.

111. *See* 19 U.S.C. §§ 1303, 1671-1677g (1988).

112. 19 U.S.C. § 2412(b)(2). *See supra* notes 57-59 and accompanying text.

113. 19 U.S.C. § 2412(b)(2)(A) (emphasis added).

114. Section 2412(b)(2)(B) provides that a self-initiated investigation of a Special 301 priority is not mandated if the USTR has determined that an investigation would be detrimental to United States economic interests, provided that a detailed explanation of

Consequently, investigations of Special 301 priority states appear to be foregone conclusions.

Similarly, once an investigation has begun, the factors that led to a state's having been designated as a Special 301 priority state make it probable that its practices are actionable as a matter of law under the retaliatory measures of section 301. As discussed previously,[115] the definitions of foreign practices targeted under the section 301 investigatory mechanism correspond to a remarkable degree to the standards of Special 301 priority designation. If anything, the standards for priority status of foreign actions are stricter than those for retaliation. Consequently, considerations of political factors that might militate against a finding of an actionable practice, such as United States relations with the foreign state in question or broader policy considerations of the potential distortion of international trade resulting from unilateral United States retaliation, must wait until the sanction stage.

Once the process has reached the sanction stage, however, repairing damage resulting from the investigation may no longer be possible.[116] The naming of foreign states to even the Special 301 priority watch list has strained United States relations with the governments involved, even though the United States has yet to undertake any retaliatory action.[117]

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the decision is forwarded to Congress. *Id.* § 2412(b)(2)(C). Although a strained reading of this provision conceivably could be the basis of a USTR decision not to initiate an investigation of a Special 301 priority state for political reasons (for example, on the grounds that the potentially deleterious impact on United States bargaining power during GATT negotiations), this provision to date has not been invoked by the USTR in decisions not to investigate.

Similarly, section 2412(c) exempts the USTR from initiating an investigation if it appears that the investigation would be ineffective in addressing the foreign policy in question. *Id.* § 2412(c). Although the latter provision arguably provides flexibility to the USTR options, the United States government has used successfully the highly discretionary section 301 to bring about effective progress in increasing Korea's protection of intellectual property. *See generally supra* note 75. This use may obviate an argument that an investigation of a Special 301 priority state would not be effective in addressing foreign unfair practices. Consequently, this language fails to provide a discretionary exemption from investigations when, although retaliatory action would be effective per se, political or other considerations militate against its employment.

115. *See supra* notes 69-73 and accompanying text.

116. Even at the sanction stage, when the USTR has considerable latitude in determining a response, *see supra* notes 76-83 and accompanying text, Special 301's enabling legislation, as in the context of investigation initiations, has restricted the USTR's discretion from that enjoyed before 1988. *See, e.g.*, 19 U.S.C. § 2411(c)(5)(A) (constraining USTR to give preference to the imposition of duties over other types of import restrictions).

117. *See, e.g., India*, 7 Int'l Trade Rep. (BNA) No. 3, at 104, 104 (Jan. 17, 1990)

As a result, actual investigations of Special 301 priority states are likely to have significant political repercussions that merit consideration prior to any decision to initiate an investigation.[118]

Moreover, the mere enactment of Special 301 proved to be a major irritant at Uruguay Round negotiations seeking to incorporate intellectual property standards into the GATT.[119] Accordingly, frequent resort to Special 301 as a legal basis for trade retaliation may produce a backlash affecting the United States bargaining position. When combined with the potential of multilateral initiatives such as the GATT, which may provide greater protection for intellectual property rights, this result illustrates the need for a discretionary escape clause that permits the USTR to decline to initiate investigations of priority states if necessary

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(Gandhi government characterizing India's placement on priority watch list as "unjustified, irrational, and unfair"); *Hills Removes Taiwan, Korea, Saudi Arabia From Priority List, supra* note 89, at 1437 (quoting economic advisor at the Mexican embassy as noting his government's view that Special 301 process is not a "positive attitude"); *cf. Heinz Sees Difficulty in Changing U.S. Law Found to be Incompatible with GATT Rules*, 6 Int'l Trade Rep. (BNA) No. 45, at 1467, 1468 (Nov. 15, 1989) [hereinafter *Heinz Sees Difficulty*] (Assistant USTR acknowledgment that EC has "fundamental problems" with Special 301).

118. Indeed, China, after being named to the priority foreign state list, labelled the action "unacceptable" and predicted that it "will have an extremely negative effect on normal economic and trade cooperation." *China Calls Designation Under Special 301 "Unacceptable," Warns Trade Endangered*, Pat. Trademark & Copyright L. Daily (BNA), May 2, 1991, available in LEXIS, BNA Library. Similarly, the chairman of the Indo-U.S. Business Council described India's designation as "[a] retrograde step which will foul U.S.-India trade relations." *India Minister Hopeful U.S. Talks Will Lead to Removal From Special 301 List*, Pat. Trademark & Copyright L. Daily, May 2, 1991, *available in* LEXIS, BNA Library.

119. *See, e.g., Japanese Officials Welcome Super 301 News, While Brazil, EC See GATT Round Benefits*, 7 Int'l Trade Rep. (BNA) No. 18, at 615, 617 (May 2, 1990) (quoting EC source as observing that United States decision on April 27, 1990 not to target other states for Special 301 investigations as "much-needed sign of the U.S. intent to seek multilaterally negotiated solutions to trade problems, rather than to pursue bilateral efforts backed by the threat of multilateral sanctions"); *Uruguay Round*, 7 Int'l Trade Rep. (BNA) No. 3, at 84, 86 (Jan. 17, 1990) (noting that the GATT secretariat has identified "a question of consistency" between the United States interest in improving GATT's rules and its bilateral actions through measures such as Special 301 and has characterized this as "a major concern" on the part of United States trading partners); *U.S. Special 301 Process Undermining GATT, Hurts U.S. Credibility, Brazil Official Says*, 6 Int'l Trade Rep. (BNA) No. 26, at 845, 846 (June 28, 1989) (noting Brazilian government's belief that use of Special 301 conflicts with the GATT and undermines the credibility of United States commitment to multilateral negotiations regarding intellectual property); *Heinz Sees Difficulty, supra* note 117, at 1468 (Assistant USTR acknowledgment that Special 301 "aggravated" intellectual property discussions at failed Uruguay Round).

to protect United States bargaining power. These features of Special 301's governing statutory framework provide an important insight into USTR Hills' decision to create the two-tiered "watch list" system and to continue to employ the more flexible ordinary section 301 action, reserving actual use of the Special 301 mechanism for only those states with egregiously deficient protection of intellectual property rights. Given the possibility of serious political consequences resulting from the Special 301's likelihood of an investigation and finding of an actionable practice when a priority state is at issue, the practical point of decision under Special 301 comes at the point of a state's being designated as a priority state. Thus, if a serious examination of the merits of trade-based retaliation under Special 301 against those states failing to provide adequate protection for intellectual property is to be undertaken at all, it must be necessarily at that stage.

Seen in this light, the USTR's reluctance actually to employ the Special 301 mechanism is understandable. Use of the two-tiered watch list system prior to the actual invocation of Special 301 may be viewed as an attempt to inject an added degree of flexibility into a process now hindered by an absence of substantive discretion. The practical effect of the USTR's placement of a state on the priority watch list is to designate it a priority state for the purposes of Special 301, and then to stay the initiation of an investigation. Through this process, the USTR can create a credible threat of future retaliation without risking the potential negative effects of a potentially automatic investigation and finding of an actionable practice. Should this approach prove unsuccessful, the United States, under USTR Hills' interpretation of the measure, has the additional leverage of an actual investigation. Thus, the USTR's invocation of the two-tiered system represents a logical and necessary response to an inartfully drafted governing statute.

Whatever the merits of the watch list approach from a policy standpoint, however, the USTR's present strategy has no clear legal basis in the Special 301 statutory framework. Although section 2242(b) gives the USTR the authority to determine which states' practices are sufficiently "onerous and egregious" to qualify for priority status, no indication exists that Congress intended this language to provide the basis for a broad administrative interpretation effectively allowing the bypass of the mandatory investigation mechanism. Similarly, section 301's governing statutes fail to provide for the issuance of a formal warning to potential targets prior to an actual investigation.

The success of the USTR's watch list strategy in securing increased protection of United States intellectual property rights prior to actual use of the Special 301 mechanism suggests that Congress should amend the

action in one of two ways. First, Congress could ratify the two-tier watch list strategy, either by incorporating it expressly into section 2242(b) or by permitting the USTR to draw distinctions between states possessing differing degrees of deficient intellectual property laws. Second, Congress could increase the discretion granted to the USTR in section 2412(c) by permitting the USTR to decline to initiate investigations of priority states.

Congressional adoption of either of these alternatives would have two desirable effects. First, it would provide statutory authorization for the strategy actually adopted by the USTR in implementing Special 301, thus eliminating the incongruity of United States trade policy being conducted in a manner on its face inconsistent with existing law.[120] Second, with this authority Congress would restore a degree of USTR discretion present in the original section 301 action that distinguishes it from other, less effective remedies. The result would be a trade-based measure capable of protecting United States intellectual property rights abroad, yet sufficiently flexible to permit molding to individual situations.

V. CONCLUSION

Six months after the announcement of the first watch list under Special 301, USTR Hills praised the measure for providing a flexibility that starkly contrasted with the "blunt instrument" approach of other trade remedies.[121] The success of the combined Special 301 and section 301 approach in securing concessions from foreign states with insufficient protection of intellectual property rights undeniably has validated the USTR's optimism about the measure's potential. As a result, Special 301 likely will play an increasingly important role in United States trade policy in the future.

This Article has demonstrated, however, that the statutory text governing Special 301 is characterized more properly as a relatively inflexible remedy that allows the USTR to exercise little discretion in initiating investigations. Once the USTR identifies a priority state under Special

120. This result, although salutary in a general sense, applies particularly in the context of the Special 301 action, given express congressional concern with preserving the credibility of the measure. *See* 19 U.S.C. § 2411(a)(2)(B)(iv) (directing the USTR to take into account the potential loss of credibility of not taking action against foreign practices found to be actionable violations when the taking of action would have an adverse impact on the United States economy substantially out of proportion with the benefits of such action).

121. *USTR Hills Criticizes Community's Response to U.S. Agriculture Proposal Before GATT*, 6 Int'l Trade Rep. (BNA) No. 43, at 1421, 1422 (Nov. 1, 1989).

301, the initiation of an investigation and a finding of actionable conduct on the part of the foreign state are in effect foregone conclusions with potentially negative consequences. To the extent that the Special 301 action possesses any significant degree of flexibility, this feature results from the USTR's administrative interpretation, rather than from the structure of Special 301 itself. This inflexibility has caused the USTR to adopt the watch-list system and to continue to rely upon the ordinary section 301 investigation as a mechanism for deterring truly inadequate foreign protection of United States intellectual property rights, while relying on the Special 301 action only as a last resort.

Given a choice between amending the governing statutory language to conform with the USTR's policy or exerting pressure to bring USTR action into strict compliance with the letter of the law, Congress should choose the former alternative. By doing so, Congress would reaffirm the United States commitment to use only bilateral remedies malleable enough to adapt to the particular facts and circumstances of individual cases. The ultimate result would be a remedy better capable of serving as an effective weapon for the protection of United States intellectual property rights worldwide.