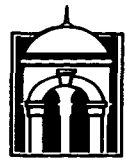
Tulsa Journal of Comparative and International Law

Volume 2 | Issue 2 Article 9

3-1-1995

Intellectual Property under NAFTA: Is Chile up to the Challenge

Kevin M. Jordan



INTELLECTUAL PROPERTY UNDER NAFTA: IS CHILE UP TO THE CHALLENGE?

I. INTRODUCTION

Even before the original North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico took effect,[1] speculation flourished as to which country would be the next admitted into NAFTA. From the beginning, Chile was the front- runner.

On June 27, 1990, President Bush launched a new economic initiative with Latin America, known as the Enterprise for the Americas Initiative (EAI), to expand trade among the nations of the Western Hemisphere, foster trade and investment in Latin American nations, and provide debt relief for these nations.[2] In December 1990, during a visit to South America, President Bush described his goal of a hemispheric free-trade union "[f]rom the northernmost reaches of Canada . . . to the tip of Cape Horn."[3] Bush had clearly identified Chile as a potential candidate for a free-trade agreement with the United States, as Chile was becoming one of Latin America's most market-oriented economies.[4] In November 1991, Chile was promised that negotiations for a U.S.-Chile free trade agreement could begin as early as February 1992.[5]

But by 1992, NAFTA negotiations were well underway between the United States, Canada, and Mexico, and Chile was informed that it would have to wait until after the conclusion of the NAFTA negotiations to discuss a free trade

---

1. While a consensus was reached by these countries on August 12, 1992, the agreement did not take effect until January 1, 1994. North American Free Trade Agreement, Dec. 17, 1992, ch. 17, 32 I.L.M. 289 [hereinafter NAFTA].

2. UNITED STATES INT'L TRADE COMM'N, USITC Pub. 2521, U.S. MARKET ACCESS IN LATIN AMERICA: RECENT LIBERALIZATION MEASURES AND REMAINING BARRIERS (Report to the Committee on Finance of the United States Senate on Investigation No. 332-318 Under Section 332 of the Tariff Act of 1930) at v (1992), [hereinafter USITC].

3. *Latin America: Bush Hails Possibility of Hemispheric Free Trade Zone During South America Trip*, 7 Int'l Trade Rep. (BNA) No. 7, at 1825 (Dec. 5, 1990).

4. *Chile and U.S. Sign Accord Seen Leading to Free-Trade Pact*, WALL ST. J., Oct. 2, 1990, at B6.

5. George Holding Taylor, *The Americas: Chile Can Win on Fast Track*, WALL ST. J., Nov. 1, 1991, at A15.

agreement. Unhappy with this development, Chile hinted it would look for other trading partners, such as Japan.[6]

When President Clinton took office in 1993, his administration agreed that Chile was the Latin American country best prepared to enter into a free trade agreement with the United States.[7] He reassured Chile that free trade negotiations would begin as soon as the NAFTA negotiations were completed.[8] To help solidify the United States' interest in Chile, the Chilean Chamber of Commerce and the Production and Trade Confederation employed lobbyists in Washington.[9] Their goal was to push for a bilateral trade pact independent of NAFTA.[10]

By early 1994 Chile had publicly indicated its desire to join NAFTA instead of limiting itself to a free trade agreement with the United States.[11] Chile also indicated it was willing to commit to side agreements concerning environmental issues to help speed up the negotiation process.[12] However, in April 1994, the Clinton Administration responded with mixed signals to the idea of Chile's accession to NAFTA. The Undersecretary of Commerce for International Affairs, Jeffery Garten, stated that it might take "a lot longer" for Chile to join NAFTA than to negotiate a free trade agreement with the United States alone.[13] Mr. Garten told reporters that while the Administration still supported the overall goal of free trade with Chile, it was "less clear just how to go about" accomplishing this goal.[14]

Shortly thereafter, the Clinton Administration began a campaign to "play down" the expectations of Latin American countries with regard to NAFTA accession.[15] The Administration indicated that it was not abandoning the goal

---

6. Bob Davis, *One America: The North American Free-Trade Agreement Pact May Be Just the First Step Toward a Hemispheric Bloc*, WALL ST. J., Sept. 24, 1992, at R1. During a June 1992, visit to the United States, Chilean Finance Minister Alejandro Foxley Rioseco reminded the Bush administration that Japan was Chile's top export market. *Id.*

7. The Undersecretary of Commerce for International Trade, Jeffery E. Garten stated that Chile is an "excellent candidate" to accede to NAFTA or enter into a free trade agreement with the United States, but cautioned that accession to NAFTA is the most difficult option for Chile. *Trade Policy: NAFTA Expansion and Subregional Pacts Not Mutually Exclusive, Garten Says*, 7 Int'l. Trade Rep. (BNA) No. 11, at 582 (Apr. 13, 1994).

8. *Chile: Private Sector Plans Lobbying Blitz in Washington to Push For Chile-U.S. Free Trade Accord*, CHRON. LATIN AM. ECON. AFF., April 29, 1993, *available in* WESTLAW, CRLAMECAF Database.

9. *Id.*

10. *Id.* The president of the Production and Trade Confederation stated, "[t]he goal of our trip is to build an intense lobby in favor of a free trade accord and convince the Clinton administration and U.S. legislators to place negotiations with Chile on a fast track." *Id.*

11. *NAFTA: Ambassador Indicates Chile Ready to Accept NAFTA Environmental Side Deal*, INT'L. TRADE DAILY (BNA), Jan. 26, 1994, *available in* WESTLAW, BNA-BTD Database. Heraldo Munoz, Chile's Ambassador to the Organization of American States, was quoted as saying "Chile is absolutely ready to enter NAFTA." *Id.*

12. *Id.*

13. *Clinton Aide Says Latin Nations May Forgo NAFTA for Bilateral Pacts*, J. COM., Apr. 8, 1994, at 2A.

14. *Id.*

15. Stephen Fidler, *U.S. Plays Down Latin American NAFTA Hopes: Washington Cautious*, FIN. TIMES (London), Apr. 12, 1994, at 4.

of hemispheric free trade, just prioritizing the agenda for the second half of 1994.[16]

In June 1994, the Administration again promised that a free trade agreement with Chile was coming, but Chile would now have to wait until the General Agreement on Tariffs and Trade (GATT) bill passed.[17]

In early July 1994, the Administration reported to Congress that Chile was the only candidate currently prepared to begin negotiating a free trade agreement with the United States.[18] However, the report also commented that before proceeding with a free trade agreement, or accession to NAFTA, the Administration might seek investment and intellectual property rights agreements with the candidate country.[19]

At the same time, the Institute for International Economics (Institute) released a report which also concluded that Chile was the best suited Latin American country to enter into a free trade agreement with the United States.[20] The Institute used a mathematical formula for determining a country's readiness to accede to NAFTA. The criteria included: price stability, budget discipline, external debt position, currency stability, market-oriented policies, reduced reliance on trade taxes, and a functioning democracy.[21] The report concluded that Chile currently scores better than Mexico did just before it entered into NAFTA.[22] The Institute strongly urged the United States to proceed via accession to NAFTA.[23]

---

16. *Id.* The mid-term congressional elections were upcoming in November.

17. *NAFTA: Brown Sees NAFTA Expansion Only After Approval of GATT Bill*, INT'L TRADE DAILY (BNA), June 21, 1994, *available in* WESTLAW, BNA-BTD Database. On June 20, 1994, U.S. Commerce Secretary Ronald Brown stated "[o]bviously there is some controversy about (GATT), and it seems to me that we would want to complete that process before we moved on to specific negotiations, be they bilateral free trade negotiations or negotiations on the subject of accession to NAFTA." *Id.*

18. Richard Lawrence, *Chile, Barbados, Trinidad Seen as Likeliest NAFTA Candidates*, J. COM., July 7, 1994, at 2A. Section 108 of the North American Free Trade Agreement Implementation Act requires that the President, based on a report from the U.S. Trade Representative identify those candidates that are eligible to begin free-trade negotiations with the United States by July 1, 1994.

19. Lawrence, *supra* note 18. Ron Brown, U.S. Commerce Secretary, stated: "Our emphasis will be on 'building blocks' of various types, in advance of free trade agreements . . . [t]hese can include intellectual property agreements, bilateral investment treaties, understanding on disciplines that we recognize are broadly supported by the private sector. The NAFTA's disciplines will serve as a model in many respects." Nancy Dunne, *Trinidad and Chile 'Top List for U.S. Links'*, FIN. TIMES (London), July 7, 1994, World Trade News, at 7.

20. Dunne, *supra* note 19. The report is entitled Western Hemispheric Economic Integration. *Trade Policy: IIE Recommends NAFTA Accession in Pursuing Western Hemisphere*, 11 Int'l Trade Rep. (BNA) No. 11, at 1102 (July 13, 1994) [hereinafter *Trade Policy*].

21. *Trade Policy, supra* note 20.

22. Dunne, *supra* note 19. Chile was placed at 4.4 on a scale of 5, while Mexico was only at 3.9 before entering NAFTA. *Id.*

23. *Id.* The report stated: "[p]olitically, stand alone talks would divide the hemisphere because existing NAFTA members would feel they were being played off against potential new U.S. partners. Economically, individual countries would be shortchanged in their trading relations with one another if the United States enters into separate arrangements with each." *Trade Policy, supra* note 20.

President Clinton was unsuccessful in obtaining fast-track negotiating authority for trade negotiations with Chile in August of 1994.[24] Several Congressmen staunchly opposed linking labor and environmental issues with trade agreements.[25] On September 13, 1994, when the Clinton administration officially announced it was withdrawing its plan to seek fast-track negotiating authority from Congress,[26] it looked as though a U.S.-Chile free trade agreement would be delayed until at least the beginning of 1995. But U.S. Trade representative Mickey Kantor reassured Chilean government officials once again that the United States remained "firmly committed" to negotiating a free trade deal with Chile.[27]

Frustrated, Chile announced its intention to begin independent trade negotiations with Mexico and Canada in November of 1994.[28] Chilean Finance Minister Eduardo Aninat stated that "[t]he long run goal has to be an integration throughout the Americas, from Alaska to Tierra del Fuego. The route to that end isn't crucial to us."[29]

While the United States has remained undecided about how to proceed, Canada has urged the NAFTA agreement be open to any country. Canadian Trade Minister Roy MacLaren believes the concept of admitting other countries is easy, stating the pivotal question as: "Can you accept the terms of NAFTA, yes, or no?"[30] Mexico has also conceded to allowing other countries to enter NAFTA, but they would prefer waiting a couple of years.[31]

From December 9-11, 1994, the United States hosted the Summit of the Americas (Summit) in Miami. The meeting united the thirty-four democratically elected leaders of the Western Hemisphere.[32] The main focus of the Summit was trade. At the conclusion of the Summit, the United States, Canada, and

---

24. *See* Peter Behr, *Senate Panel Backs New Global Trading Rules; Finance Committee Rejects President's Request for Environmental, Worker Protection Powers*, WASH. POST, Aug. 3, 1994, at F3. When Congress grants "fast-track" authority to the President, it grants the authority to negotiate an international trade agreement, which Congress must approve. Under "fast-track" authority Congress agrees either to accept or reject the treaty, but may not make amendments. NAFTA was passed under "fast-track" authority. Helene Cooper, *Clinton is Dealt Major Setback in Trade Power*, WALL ST. J., Aug. 3, 1994, at A2.

25. Behr, *supra* note 24. Rep. Richard Gephardt's (D - Mo.) fast-track bill, endorsed by the Clinton administration, incorporated provisions on workers' rights and environmental protection into the agreement rather than negotiating side agreements, the process followed with Mexico. Charles W. Thurston, *Next on Agenda: Hemispheric Free Trade*, J. COM., June 29, 1994, at 1C.

26. *Chile: U.S. Reassures Chile of Commitment to Free Trade Deal, U.S. Officials Say*, INT'L TRADE DAILY (BNA), Sept. 16, 1994, *available in* WESTLAW, BNA-BTD Database.

27. *Id.*

28. Matt Moffett, *Chile, Eager to be Part of NAFTA, May Aim for Talks Without U.S.*, WALL ST. J., Nov. 1, 1994, at A17.

29. *Id.*

30. John Urquhart, *Canadian Trade Minister Says NAFTA Should Be Opened Up to Other Nations*, WALL ST. J., May 31, 1994, at C18.

31. Christopher Marquis, *Who's next in line for NAFTA?*, J. COM., Apr. 11, 1994, at 12A. While Mexico would prefer to add new member to NAFTA at a slower pace they flatly deny allegations that would block the expansion of NAFTA. A Mexican official responding to the claim that Mexico disfavored the admission of other countries into NAFTA stated, "I don't know who came up with the idea of blaming Mexico. We've told them [the U.S. government] to go look elsewhere for a scapegoat." *Id.*

32. *NAFTA: Chile Accession to NAFTA Will Be Lengthy, Brown Says*, INT'L TRADE DAILY (BNA), Dec. 9, 1994, *available in* WESTLAW, BNA-BTD Database.

Mexico formally extended an invitation to Chile to begin negotiations to join NAFTA.[33] Canada's Prime Minister stated "[f]or one year now we've been the three amigos. Starting today, we will become the four amigos."[34]

President Clinton has chosen to begin negotiations with Chile for NAFTA accession without fast-track authority.[35] After the official announcement, U.S. Trade Representative Mickey Kantor stated that the Administration will seek "broad" negotiating authority from Congress in 1995, including authority to conclude the NAFTA accession.[36] However, White House Press Secretary Dee Dee Myers has stated that even if the Administration does not obtain fast-track authority, Chile's NAFTA accession could pass through the legislature under the normal procedure.[37] Kantor announced that representatives from the three NAFTA countries would meet in late December 1994, to contemplate "readiness, criteria and timetables".[38] He also stated that the trade ministers would meet no later than May 31, 1995, to discuss "the results of working-level discussions held during the first five months of the new year."[39] "We're going to have to be careful as we go into the accession. After all, this is going to set a precedent (for all other countries)."[40]

NAFTA's primary objectives are the break down of trade barriers through the elimination of tariffs on goods originating in the member counties, fair competition, and increasing investment opportunities for the signatories.[41] While a free trade agreement with Chile "represents a small market monetarily," it represents "a large step symbolically."[42] While the U.S. depends on the export market in Latin America and seeks to urge the continuance of market liberalization,[43] for Chile, the stakes are much higher. "[I]f Chile is acceptable as a partner to the U.S., it will draw the attention of investors. A free trade agreement can bring in investment from third countries seeking access to the

---

33. Helene Cooper & Jose de Cordoba, *Chile is Invited to Join NAFTA as U.S. Pledges Free-Trade Zone for Americas*, WALL ST. J., Dec. 12, 1994, at A3.

34. *Id.*

35. *NAFTA: Discussions on Chile Link to NAFTA to Precede Bid for Fast-Track Authority*, INT'L TRADE DAILY (BNA), Dec. 13, 1994, *available in* WESTLAW, BNA-BTD Database.

36. *Fast Track: 'Broad' Fast Track Authority Sought to Negotiate With Chile, Other Nations*, INT'L TRADE DAILY (BNA), Dec. 14, 1994, *available in* WESTLAW, BNA-BTD Database.

37. *NAFTA: Discussions on Chile Link to NAFTA to Precede Bid for Fast-Track Authority*, *supra* note 35.

38. *NAFTA: NAFTA Countries Plan to Move 'Quickly' in Talks with Chile, USTR Kantor Says* , Int'l Trade Daily (BNA), Dec. 16, 1994, at d13, *available in* WESTLAW, BNA-BTD Database.

39. *Id.*

40. *Id.* Statement by U.S. Trade Representative Mickey Kantor.

41. NAFTA, *supra* note 1, Art. 102.

42. Bob Davis, *White House Plans to Request Authority For Free-Trade Talks; Chile Pact is Seen*, WALL ST. J., May 4, 1994, at A2. Chile is the 35th largest trading partner of the United States. Moffett, *supra* note 28.

43. *Id.* In relation to the three NAFTA countries, Chile is most often compared with Mexico although there is quite a difference in terms of market size. Mexico has a population of 85 million, while Chile's population is 13.8 million. Michael Doyle, *Clinton Offers Chile Full Role in Trade Pact*, SACRAMENTO BEE, Dec. 12, 1994, at A1.

U.S. market."[44] However, problems will arise in negotiating any free trade agreement.

The main problems in negotiating with Chile concern inadequate intellectual property protection, environmental concerns, and workers' rights.[45] This Comment focuses on the intellectual property issues, specifically, pharmaceutical patent protection, parallel importing, and the Cultural Industries Exclusion.

II. THE NAFTA INTELLECTUAL PROPERTY PROVISIONS: CHAPTER SEVENTEEN

NAFTA is intended to facilitate trade between its signatories.[46] However, free trade cannot exist without respect for the domestic laws of each trading partner. One aspect of trade in which legal disparity exists worldwide is intellectual property.[47] Chapter Seventeen of NAFTA specifically addresses this issue and harmonizes the distinctions of the intellectual property law systems by producing a uniform standard under which member nations can operate.[48]

Article 1701 of Chapter Seventeen requires that each party shall provide "adequate and effective enforcement of intellectual property rights" to the nationals of another party, "while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade."[49]

NAFTA is not intended to provide the maximum protection of intellectual property rights. Article 1701 merely establishes the minimum level of intellectual property rights each party must provide, by specifically referencing several intellectual property treaties already in force.[50] Under NAFTA, each

---

44. Comments of Jose Antonio Guzman, President of Chile's Confederation of Production and Commerce. Thomas Kamm, *Free-Market Model: Chile's Economy Roars As Exports Take Off In Post-Pinochet Era*, WALL ST. J., Jan. 25, 1993, at A1.

45. In early December, 1994, Republican leaders, in a letter to U.S. Trade Representative Mickey Kantor, "reiterated their strong opposition to tying trade sanctions to labor or environmental objectives, particularly in fast track legislation." *Fast Track: 'Broad' Fast Track Authority Sought to Negotiate With Chile, Other Nations*, *supra* note 36. Since it is unlikely that environmental or labor issues will be incorporated into NAFTA, this paper will address only the issue of intellectual property protection.

46. NAFTA, *supra* note 1.

47. Report of the Industry Functional Advisory Committee for Trade in Intellectual Property Rights on the North American Free Trade Agreement, Sept. 1992 at 42 [hereinafter IFAC Report]. "Piracy and other unauthorized reproduction or public communication of works comprise the U.S. copyright industries' principal market access barrier around the world." *Id.*

48. NAFTA, *supra* note 1, art. 1701, para. 2. "For the purpose of this Chapter . . . intellectual property rights refers to copyright and related rights, trademark rights, patent rights, rights in layout designs of semiconductor integrated circuits, trade secret rights, plant breeders' rights, rights in geographical indications and industrial design rights." *Id.*

49. NAFTA, *supra* note 1, art. 1701, para. 1.

50. *Id.* at para. 2. This article expressly references four conventions:

(a) the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms, 1971 (Geneva Convention);

(b) the Berne Convention for the Protection of Literary and Artistic Works, 1971 (Berne Convention);

(c) the Paris Convention for the Protection of Industrial Property, 1967 (Paris Convention); and

(d) the International Convention for the Protection of New Varieties of Plants, 1978 (UPOV Convention), or the International Convention for the Protection of New Varieties of Plants, 1991 (UPOV Convention).

party must provide the level of intellectual property rights protection afforded in the substantive portions of the enumerated treaties, even if the party has not agreed to that convention prior to the party's entry into the NAFTA agreement.[51] A party's domestic laws may provide more extensive protection of intellectual property rights than is required under the Agreement, as long as that protection is not inconsistent with the text of the agreement.[52]

Chile's intellectual property protection is not at the level of the current NAFTA members. Although a signatory of the Berne and Geneva conventions, Chile does not provide the level of protection that the United States, Canada, and Mexico currently provide.[53] Significant changes in Chile's intellectual property laws will be required to fulfill the intent of this chapter. The main area of concern, as discussed below, is pharmaceutical patent protection.[54]

A. Patent Protection

The greatest disparity in patent protection between Chile and the present NAFTA countries is in the area of pharmaceuticals. The issue of pharmaceutical patents has been a "long-standing source of conflict" between the United States and Chile.[55] Prior to 1991, Chile refused to afford any patent protection to pharmaceutical products and processes.[56] Chilean laboratories freely copied drugs, while American drug manufacturers suffered significant losses due to the lack of patent protection.[57]

The Pharmaceutical Manufacturer's Association claims that Chile's inadequate patent laws cost U.S. pharmaceutical companies $4.7 million per year between 1970 and 1990, for a total of $94 million.[58] In 1990, this group began to petition the U.S. Trade Representative for trade sanctions against Chile.[59] The group claimed that not only were Chilean drug companies copying drugs, but they were also exporting the drugs to Central America, further damaging the U. S. companies.[60] Chilean consumer groups countered that drug prices would substantially increase if monopolistic pharmaceutical patents were recognized.[61]

In an effort to increase its chances of joining a free trade agreement with the United States, Chile passed a pharmaceutical patent law in September

---

Id. at para. 3. Mexico has two years to comply with the substantive provisions of the 1978 or 1991 UPOV Convention. *Id.* Annex 1701.3.

51. *Id.* art. 1701.

52. *Id.* art. 1702.

53. USITC, *supra* note 2, at 5-17.

54. *See infra* notes 55-81 and accompanying text.

55. USITC, *supra* note 2, at 5-20.

56. *Id.* Chile and Mexico are the only Latin American countries which provide pharmaceutical patent protection. *See also Chile Completes its Patent Laws Reform*, MARKETLETTER, May 23, 1992 [hereinafter MARKETLETTER 1992].

57. Barbara Durr, *Chile Surrenders to U.S. Threat on Pharmaceutical Patents*, FIN. TIMES (London), Feb. 1, 1990, World Trade News, at 5.

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*

1991.[62] This was an important first step, but controversy still exists. Two major aspects of the Chilean Pharmaceutical Patent Law concern the American pharmaceutical industry.[63] First is the term of patent protection and second is the "pipeline protection" exception for pharmaceuticals.[64]

The term of patent protection is of particular concern to the U.S. pharmaceutical industry due to the lengthy development period associated with bringing a new drug to market. The process of regulatory approval and testing normally takes between eight and ten years.[65] Currently, Chile's pharmaceutical patent protection is only fifteen years from the date a patent is granted.[66] NAFTA has set the term of patent protection at the international standard of twenty years from the date of filing (seventeen years from the date of a patent grant).[67] The United States continues to pressure Chile to further increase its patent protection from fifteen to twenty years. American pharmaceutical manufacturers are concerned that more than half of the patent's life is wasted during the drug development period, and subsequently, the pharmaceutical manufacturers see little benefit from the fifteen years of patent protection currently being provided.

An additional concern for U.S. pharmaceutical companies is "pipeline protection." Under the 1991 Chilean patent law, pharmaceutical patents that were already on file in foreign countries are to be honored as long as they were filed after September 30, 1991, the date the Chilean patent law was passed.[68] U.S. pharmaceutical companies want Chile to recognize all foreign patents retroactively, providing pipeline protection, for the unexpired term of the patent, regardless of when the patent was filed. NAFTA currently provides for pipeline protection of pharmaceutical products for "the unexpired term of the patent."[69] Pharmaceutical industry representatives in the United States are concerned that without the pipeline protection, "the pharmaceutical industry will not benefit from the net effect of [Chile's] patent law until after this century."[70]

As the NAFTA countries and Chile begin accession negotiations, pharmaceutical patents are certain to be major stumbling block. The Chilean drug industry is disturbed by the patent law already in place. This powerful lobbying group is sure to resist further expansion of the patent laws, including extending patent protection to twenty years. At a Latin American Pharmaceutical Industry meeting, Chilean officials warned Argentina not to change its patent law, citing the problems Chile encountered as a result of its 1991 changes.[71] The United

---

62. MARKETLETTER 1992, *supra* note 56. The United States threatened trade sanctions of nearly $100 million, if Chile failed to pass a pharmaceutical patent law. Currently the United States accounts for 22% of Chile's exports. Durr, *supra* note 57.

63. USITC, *supra* note 2, at 5-20.

64. *Id.*

65. *Id.*

66. *Id.*

67. NAFTA, *supra* note 1, art. 1709, para. 12. NAFTA also extends the term of patent protection to account for delays in the regulatory approval process. *Id.*

68. Durr, *supra* note 57.

69. NAFTA, *supra* note 1, art. 1709(4).

70. USITC, *supra* note 2, at 5-20.

71. *Chile and Mexico Warn Argentina on Patents*, MARKETLETTER, May 23, 1994 [hereinafter MARKETLETTER 1994].

States had promised the Chilean pharmaceutical industry increased investment under a reformed patent system.[72] Instead, five of the multinational pharmaceutical companies previously manufacturing in Chile sold their plants and now export their products to Chile.[73]

On the other side of the table, Canadian and Mexican pharmaceutical industry representatives are also disturbed by the effects of their pharmaceutical patent law reforms that were the result of United States pressure.[74] Canadian officials advised Latin American countries to resist a U.S. style patent protection system.[75] The President of the Canadian Drug Manufacturers Association stated that the new pharmaceutical patent laws passed in Canada have hurt the Canadian health care system and pharmaceutical industry.[76] The President of the Mexican National Industry Association also stated that the revised Mexican patent law favors multinational drug companies that operate in Mexico, particularly those from the United States.[77]

Obviously, patent laws are essential to the United States. However, the comments made by Canadian and Mexican officials could prove to complicate negotiations with Chile. The United States' position on patent protection is clear; it intends to use NAFTA as a base from which to build. The United States is beginning a push to extend patent protection from twenty to twenty-three years.[78] However, Canada and Mexico may not be willing to enforce this level of patent protection. Since Canada and Mexico are both unhappy with the results of their own patent reform, they may not be willing to force the full burden of NAFTA patent laws onto a much smaller economy, at least not all at once. Canada and Mexico may opt for a phase-in period over which a new entrant such as Chile could gradually increase patent laws to avoid a heightened economic burden. These issues must be decided by the three NAFTA countries before the negotiations with Chile begin.

B. The Gray Market & Parallel Importing

NAFTA fails to address the problem of gray market goods.[79] Gray market goods are not counterfeit or pirated, like black market goods, but are authentic items purchased legally in the country for which they are licensed, during advantageous currency fluctuations.[80] Parallel importing[81] occurs when these goods are resold in another country at prices lower than the intellectual property

---

72. *Intellectual Property: Latin American Drug Industries Condemn U.S. Pressure For Patent Laws*, 11 Int'l Trade Rep. (BNA) No. 11, at 786 (May 18, 1994).

73. MARKETLETTER 1994, *supra* note 71.

74. *Intellectual Property: Latin America Drug Industries Condemn U.S. Pressure for Patent Laws*, *supra* note 72 at 786-7.

75. *Id.*

76. *Id.*

77. MARKETLETTER 1994, *supra* note 71.

78. *Id.*

79. George Y. Gonzalez, *An Analysis of the Legal Implications of the Intellectual Property Provisions of the North American Free Trade Agreement*, 34 HARV. INT'L L.J. 305, 307 (1993).

80. *Id.*

81. The IFAC defines parallel importing as "the import of products containing protected works not authorized for distribution and sale in a particular country." IFAC Report, *supra* note 47, at 45.

right holder in that country is ordinarily able to sell them. The consequence of this direct competition is that the parallel importer evades the entire authorization process, and more importantly, bypasses the payment of royalties to the intellectual property owner.[82] "This arbitraging of goods among international markets precipitates a 'cat-and-mouse' competition between the parallel importer and the authorized trademark owner."[83] In 1986, the U.S. International Trade Commission estimated that the worldwide losses due to infringement of intellectual property were between $43 and $61 billion,[84] with gray market goods comprising as much as $10 billion of this cost annually.[85]

Currently the United States has no explicit parallel importing protection.[86] Trademark holders in the United States have attempted to show trademark infringement under the Lanham Act[87] to protect against parallel importing. Under the Lanham Act, a trademark holder must prove that a consumer is likely to be confused by the use of a particular trademark.[88] A balancing test is used to determine if a competing trademark is likely to lead to confusion.[89] But because parallel importing involves authentic goods, some courts have dismissed intellectual property right holders' claims.[90] Other courts allow the claims if differences in quality, physical composition, and customer service packages lead consumers to be confused as to whether the goods are those authorized for sale in the country where purchased.[91]

NAFTA also provides no protection from parallel importing. The resolution of this issue by NAFTA's signatories remains to be determined. Until the issue is directly addressed, each party must rely on the domestic law of its trading

---

82. Gonzalez, *supra* note 78, at 307.

83. *Id.*

84. *Id.* at n.23. USITC Pub. 2065 at H-3 (1988).

85. John Riley, *'Gray Market' Fight Isn't Black and White*, NAT'L L.J., Oct. 28, 1985, at 1.

86. Shira R. Yoshor, *Competing in the Shadowy Gray: Protecting Domestic Trademark Holders from Gray Marketeers Under the Lanham Act*, 59 U. CHI. L. REV. 1363, 1364 (1992).

87. 15 U.S.C. §§ 1114, 1124, 1125 (1988 & Supp. V 1993).

88. Section 43(a) of the Lanham Act provides in part:

> (a)(1) Any person who . . . uses in commerce any word, term, name, symbol, or device . . . which
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising . . . misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods . . . shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.

15 U.S.C. § 1125 (Supp. V 1993).

89. Currently the courts weigh the following factors to determine if a competing trademark has caused confusion:

> (1) the strength of the trademark, (2) the degree of similarity between the two marks, (3) the proximity of the products, (4) the likelihood that the senior user of the mark will bridge the gap, (5) evidence of actual confusion, (6) the junior user's bad faith vel non in adopting the mark, (7) the quality of the junior user's product, and, finally, (8) the sophistication of the relevant consumer group.

Centaur Communications Ltd. v. A/S/M Communications, 830 F.2d 1217, 1225 (2d. Cir. 1987) (citing Polaroid Corp. v. Polaroid Electronics Corp., 287 F.2d 492, 495 (2d Cir. 1961)).

90. Yoshor, *supra* note 86, at 1369.

91. *Id.* at 1365.

partners to adequately protect the interests of its own intellectual property right holders. Many prominent business groups have urged that NAFTA prohibit parallel importation, including the U.S. Council for International Business,[92] the Heritage Foundation, and the American Bar Association.[93]

The first Article of the Intellectual Property Chapter of NAFTA states that, "[e]ach party shall provide . . . adequate and effective protection and enforcement of intellectual property rights, while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade."[94] There is little doubt that a parallel importing restriction is a barrier to free trade in some form. A complete ban on parallel importing is a barrier to trade, but is it a "barrier to *legitimate* trade" as the NAFTA text provides?[95]

There is some support for legalizing parallel imports. "The legalization of parallel imports within the NAFTA community would not cripple the theoretical underpinnings of intellectual property protection."[96] The trademark owners do profit from parallel importing.[97] They are compensated when the goods are originally purchased by the importer.[98] The manufacturer also benefits from increased competition in distribution due to more goods being sold at a lower price.[99] Overall, parallel importing could be viewed as benefiting NAFTA states both through "efficiency gains generated by increased competition" and by "providing NAFTA consumers with a larger selection of goods at lower prices than available from authorized distributors."[100]

The prohibition of parallel importation is traditionally promoted by developed countries such as the United States and Canada and staunchly opposed by developing countries such as Mexico and Chile.[101] Before the three signatories of NAFTA sit down with the representatives of Chile to discuss Chile's accession to NAFTA, the United States should seize this opportunity to strengthen NAFTA's intellectual property provisions and push for the prohibition of parallel importation. As more developing Latin American countries are added to NAFTA, it will be increasingly difficult to reach a consensus for strengthening the intellectual property provisions of NAFTA that greatly burden the lesser developed economies.[102] The United States and Canada, the countries most likely to benefit from the restriction of parallel importing, while still comprising a majority, should strengthen NAFTA's intellectual property protection.

---

92. The U.S. Council for International Business represents 280 U.S. companies.

93. Gonzalez, *supra* note 79, at 309.

94. NAFTA, *supra* note 1, art. 1701.

95. *Id.* (emphasis added).

96. Gonzalez, *supra* note 79, at 329.

97. Michael B. Weicher, *K Mart Corp. v. Cartier, Inc.: A Black Decision for the Grey Market,* 38 AM. U. L. REV. 463, 476 (1989).

98. *Id.*

99. *Id.*

100. Gonzalez, *supra* note 79, at 330.

101. *Id.* at 310.

102. *Id.* at 310. "Developed states point to their sophisticated intellectual property systems as providing the proper incentive structure for innovations to stimulate economic growth. By contrast, developing states perceive a well-developed intellectual property regime as disproportionately benefitting foreign investors while administrative costs consume strained domestic resources." *Id.*

C. *Cultural Industries Exclusion*

The Cultural Industries exclusion is not contained in NAFTA's Intellectual Property Chapter, but rather in the chapter entitled Exceptions.[103] This exception allows Canada, contrary to the general goals of NAFTA,[104] to ignore all of the NAFTA intellectual property obligations (except those deriving from Canada's adherence to other international agreements) which are detrimental to its "cultural industries."[105] These industries include print, film and video, music, radio, and television.[106] "Such a broad based exclusion can be used to effectively nullify most of the benefits granted by NAFTA's intellectual property provisions."[107] This arrangement is "basically economic and protectionist in nature, antithetical to any notion of free or fair trade, and hardly a justification for departing from otherwise acceptable intellectual property standards."[108]

While Canada may apply this exclusion to any NAFTA signatory,[109] its effect is essentially only felt by the United States. The United States has amended the Special 301 provision of the U.S. Trade Act of 1974, to help prevent abuses of this exclusion by Canada.[110] The amendments require the Trade Representative to identify all new Canadian acts, policies, and practices that affect cultural industries.[111] In addition, the Statement of Administrative Action, which accompanied the NAFTA implementation legislation, states that "the Administration is committed to using all appropriate tools at its disposal to discourage Canada and other countries from taking measures that discriminate

---

103. NAFTA, *supra* note 1, art. 2106, Annex 2106.

104. Charles S. Levy & Stuart M. Weiser, *The NAFTA: A Watershed for Protection of Intellectual Property*, 27 INT'L LAW 671 (1993).

105. This exclusion also applies to financial services in Chapter 14 and investments in Chapter 11. NAFTA, *supra* note 1.

106. *Id.*, art. 2107.

107. Levy & Weiser, *supra* note 103 at 12.

108. IFAC Report, *supra* note 47, at 50.

109. NAFTA, *supra* note 1, art. 2106 & Annex 2106.

110. Subsection (a) of 19 U.S.C. § 2242 states that the United States Trade Representative shall identify: "those foreign countries that deny adequate and effective protection of intellectual property rights, or deny fair and equitable market access to United States persons that rely upon intellectual property protection, and those foreign countries . . . that are determined by the Trade Representative to be priority foreign countries."

Subsection (e) provides for the publication in the Federal Register of the names of those countries that the Trade Representative has determined to have provided inadequate intellectual property protection.

Subsection (f) has been added to keep Canada's "cultural industries" exclusion in check. The new section, entitled "Special rules for actions affecting United States cultural industries," states:

> (1) In general: By no later than . . . 30 days after the date on which the annual trade report is submitted to Congressional committees . . . the Trade Representative shall identify any act, policy, or practice of Canada which —
>
> (A) affects cultural industries,
>
> (B) is adopted or expanded after December 17, 1992, and
>
> (C) is actionable under article 2106 of the North American Free Trade Agreement.

19 U.S.C. § 2242 (a)(e)(f) (1988 & Supp. V 1993).

111. 19 U.S.C. § 2242(f) (Supp. V 1993).

against, or restrict market access for, U.S. film, broadcasting, recording, and publishing industries."[112]

No matter which country becomes the first new member to NAFTA, no exclusions can be permitted. Free trade is not established when special deals exist between the parties. If Chile does accede to NAFTA, and this exclusion is permitted to remain, a precedent will be set for all future NAFTA signatories. Under Annex 2106, this exclusion applies to all NAFTA signatories. This arrangement is totally contradictory to the entire concept of a "free trade" agreement. U.S. negotiators should strive to have this provision stricken before the accession talks begin. The United States should be looking to perfect the current NAFTA text, before the accession precedent is set. Future agreements or accessions should only expand intellectual property protection, not create exceptions.

III. CONCLUSION

Chile has made great strides over the last several years, reforming its government, its economy, and its trade policies. They should be rewarded with NAFTA accession, but only if they are willing to comply fully with NAFTA's requirements. Their decision to offer pharmaceutical patent protection reinforced their commitment to enter into a free trade agreement with the United States, but their efforts were incomplete. Chile must now be willing to take the final step; offer the full patent protection afforded by NAFTA. This includes a twenty year pharmaceutical patent and pipeline protection. In negotiating with Chile, it is vital that the NAFTA countries not make concessions or create more exclusions, as all Latin American countries hopeful of joining NAFTA will look to this accession as the model for NAFTA membership. The success of NAFTA will be measured by the quality of the new countries admitted, not the quantity. A country must not be permitted to join until its domestic laws are of the same caliber as the existing members. Any deviations are a threat to the integrity of NAFTA.

As for the present NAFTA agreement, improvements should be sought in the intellectual property section. Although the agreement has only been in effect for just over a year, it is not too early to identify future problems. The potential hazards associated with parallel importing and the cultural industries exclusion were obvious even when the agreement was is its draft form. Instead of tackling these politically charged issues, the NAFTA negotiators chose to side-step these sensitive matters, at the price of getting the agreement off the ground. But now as the NAFTA countries look to an additional member, it is vital that these tough issues be addressed. In order to reach the fundamental goal of NAFTA, a hemispheric free trade zone, the trading rules of all NAFTA countries must be uniform. This means no variances and no exceptions. As more Latin American countries join the union, it will become increasingly more difficult to change any

112. The North American Free Trade Agreement Implementation Act, Statement of Administrative Action, *in* President's Message to Congress Transmitting the North American Free Trade Agreement, Implementing Bill, Statement of Administrative Action and required Supporting Statements, H.R. Doc. No. 159, 103d Cong., 1st Sess. 221 (1994).

NAFTA provision. If the three NAFTA countries miss this opportunity to correct NAFTA's obvious flaws, it may prove that NAFTA does not have the flexibility to adapt to the trade demands of the future.

Kevin M. Jordan