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Intellectual Property Aspects of NAFTA and GATT: An Update[†]

by John E. Vick, Jr.*

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I. Introduction

The North American Free Trade Agreement (hereinafter "NAFTA")¹ and the General Agreement on Tariffs and Trade (hereinafter "GATT")² are changing the way the world views intellectual property rights. Although the international scope of each provision is different, they are overlapping and therefore, the changes in intellectual property law provisions of NAFTA cannot properly be considered without reference to related and important provisions in GATT.

One of the purposes of NAFTA is to bolster and harmonize the domestic intellectual property laws of the United States, Mexico, and Canada. However, NAFTA represents a series of compromises implemented by each participating country and, therefore, is not perfect. For example, NAFTA does little to encourage the United States to implement more vigorous "moral rights" laws and does not eliminate copyright formalities that will remain under United States law depriving authors of the full measure of court awardable remedies in copyright cases.³

Other aspects of NAFTA represent rather unusual compromises that are difficult to reconcile with existing United States law. For instance, by defining "commercial dishonesty" as, among other things, the grossly negligent appropriation of the proprietary materials of others, NAFTA sets a much higher standard for liability in trade secret cases (and perhaps also unfair competition cases) than traditionally has been required.⁴ Exactly what is grossly negligent appropriation? This provision presents a major hurdle in establishing liability in trade secret cases under NAFTA.

Canada received one of the most startling benefits of the NAFTA series of compromises in that NAFTA preserves Canada's so-called "cultural exemption," which affords Canada the right to take whatever action it deems to be in its national interest regarding cultural materials (such as motion pictures, records and books).⁵ There are fears among the other two NAFTA participants, the United States in particular, that Canada's cultural exemption may later be used as a quota system by Canada for the exclusion of artistic products originating in the U.S. and other countries. The systematic exclusion of such copyrighted materials defeats one of the purposes of NAFTA.

Non-discriminatory national treatment of intellectual property under NAFTA, and the establishment of certain minimum standards for protection of sound recordings, computer programs and proprietary data, are welcome additions to the law of intellectual property. The basic protections afforded to computer software and the prohibitions against commercial software rental are major advances in curbing illicit copying of computer programs.⁶ The advances are of key importance to the United States as it is the source of a large volume of valuable intellectual property rights comprising, among other things, computer programs and sound recordings. Prevention of piracy will assist each country in establishing long-lasting and meaningful commercial relationships with the others.

Similarly, GATT is intended to help establish long-lasting and meaningful commercial relationships between countries. With over 100 countries likely to be parties to GATT as of April 1994, including the United States, the impact of the agreement cannot be overstated. This paper is not an exhaustive review of NAFTA and GATT but instead is intended to provide a brief introduction to some of the important

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1. North American Free Trade Agreement, Dec. 17, 1992, Can.-Mex.-U.S., 32 I.L.M. 296 and 32 I.L.M. 605.
 2. General Agreement on Tariffs and Trade, *opened for signature*, Oct. 30, 1947, 61 Stat. A3, 55 U.N.T.S. 187.
 3. 17 U.S.C. § 412 and NAFTA Annex, Art. 1701.3(2).
 4. NAFTA, Art. 1721.
 5. See NAFTA, Art. 1705 and incorporated provisions of the NAFTA Annex.
 6. NAFTA, Art. 1705(1), (2).

intellectual property issues that have arisen in NAFTA and GATT. Changes to geographical aspects of inventorship under section 104 of the United States Patent Act⁷ also will be discussed.

II. NAFTA

A. Overview

1. Intellectual Property Provisions—

NAFTA is intended to provide adequate and effective protection and enforcement of intellectual property rights among the United States, Canada, and Mexico. It provides a comprehensive definition of “intellectual property rights” by fixing minimum standards for intellectual property protection and by requiring each country (hereinafter “Party”) to accord to nationals of another Party treatment that is no less favorable than it accords to its own nationals.⁸

Article 1721 of NAFTA defines intellectual property rights as “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.”⁹

Noticeably absent from the broad definition above are rights against unfair competition. However, Article 1701 requires each Party to give effect to the substantive provisions of the Paris Convention, which includes requirements for effective protection against unfair competition.¹⁰ Since NAFTA covers trademark law and trademark law in the United States is merely a subset of the law of unfair competition, it seems likely that unfair competition protection is contemplated under NAFTA even though it is not expressly set forth in the definition of intellectual property rights.¹¹

2. Patents—

NAFTA generally requires each Party to make patent protection available for a term of at least twenty years from the date of filing or seventeen years from the date of the patent grant.¹² The duration of patents under United States law which is measured from the date the patent is granted is seventeen years for utility patents and fourteen years for design patents.¹³ If a Party limits patent protection to twenty years from the date of filing, and prosecution of the patent takes more than three years, the effective term of protection may be thereby reduced.

In conformity with existing United States law on the subject, NAFTA permits but does not require each Party to “. . . extend the term of patent protection, in appropriate cases, to compensate for delays caused by regulatory approval process.”¹⁴ NAFTA, therefore, represents a recognition that the undue delays often associated with obtaining government approval for the marketing of pharmaceutical and other

7. 35 U.S.C. § 104 (1988).

8. NAFTA, Art. 1703(1).

9. NAFTA, Art. 1721(2).

10. NAFTA, Art. 1701(2)(c).

11. See NAFTA, Art. 1721.

12. NAFTA, Art. 1709(1), (12).

13. 35 U.S.C. § 154 (1988) (utility patents); 35 U.S.C. § 173 (1988) (design patents). United States Commissioner of Patents and Trademarks Bruce Lehman and the Japanese Commissioner of Patents on January 20, 1994 reached an agreement that by July 1995 Japan will accept English language patent filings, followed by a subsequent translation. In return, the United States has pledged to request the introduction of a bill in the United States Congress by June 1994 to change to a 20-year patent term from filing. The recent GATT Uruguay Round Agreement already obligates the United States to go to twenty years from filing, but the agreement with Japan could accelerate introduction of a bill in Congress.

14. NAFTA, Art. 1709(12).

products sometimes improperly deprive the patent owner of several years of patent protection. NAFTA accommodates these delays by allowing for patent term extension.¹⁵

NAFTA permits Parties to exclude from patentability "plants and animals other than microorganisms" and biological processes for the production of plants and animals.¹⁶ Such exclusions negatively impact the biotechnology industry by allowing a Party to shield its biotechnology industry from paying tribute to otherwise valid patents merely because the subject matter of the patent is comprised of plants or animals.

Under NAFTA, each Party has the right to maintain a compulsory patent licensing system for use when efforts to obtain a direct license from the patentee on reasonable commercial terms have failed.¹⁷ Compulsory licensing is permitted only by compliance with a detailed set of guidelines and only in cases where the use is intended "predominantly for the supply of the Parties' domestic market" and upon payment to the patentee of "adequate" remuneration.¹⁸

Regarding infringement of process patents, NAFTA requires each Party to place the burden of establishing that the alleged infringement resulted from a process other than the patented one on the alleged infringer.¹⁹ This applies in the case of newly patented processes or where a substantial likelihood exists that the allegedly infringing product was made by the process and the patentee is unable, through reasonable efforts, to identify the specific process actually used.²⁰ Thus, NAFTA makes it easier for plaintiffs in process patent infringement litigation to prove their case because it requires the defendant (who has better access to the information) to establish noninfringement.

3. Copyrights—

NAFTA provides that each Party shall extend copyright protection to all works covered by Article 2 of the Berne Convention, as well as to any other works embodying original expression within the meaning of that convention.²¹ In general, the Berne Convention requires the protection of literary and artistic works in various media of expression.²² For example, the work may be dramatic, choreographic, musical, cinematographic, or it may comprise a drawing, painting, sculpture, or otherwise be within the scope of a category of protectable expression.²³

Foremost among copyright protections afforded by NAFTA is the requirement that all types of computer programs be protected as literary works and that data compilations be protected as "compilations."²⁴ Under NAFTA, the author of a computer program may prohibit commercial rental of copies of the program.²⁵ Thus, the copyright owner may obtain relief against distributors who

15. *Id.*

16. NAFTA, Art. 1709(3).

17. NAFTA, Art. 1709(10)(b).

18. NAFTA, Art. 1709(10)(b), (f), (h).

19. NAFTA, Art. 1709(11).

20. NAFTA, Art. 1709(11)(a), (b).

21. NAFTA, Art. 1705(1).

22. Berne Convention for the Protection of Literary and Artistic Works, of Sep. 9, 1886, as revised at Paris on July 24, 1971, and amended on Oct. 2, 1979, S. TREATY DOC. NO. 99-27, 32 I.L.M. 605 (1993)(entered into force for the U.S. Mar. 1, 1989).

23. Berne Convention, Art. 2(1).

24. NAFTA, Art. 1705(i). NAFTA Article 1705 provides that protection of data compilations "shall not extend to the data or material itself, or prejudice any copyright subsisting in that data or material." This language is consistent with United States law providing limited protection to compilations under the copyright law. Only an original selection and arrangement of data is entitled to copyright protection as a compilation in the United States.

25. NAFTA, Art. 1705(2)(d).

purchase lawful copies of a program and then lease it on a short term basis to others, thereby enabling copying of the program. NAFTA contains a parallel provision prohibiting the rental of sound recordings for similar reasons.²⁶

What rights are afforded to copyright owners under NAFTA? The exclusive rights of the copyright owner may include the right to "authorize or prohibit" reproductions, distributions, performances or displays of the work to the public, depending on the laws of the particular country.²⁷ Further, copyright owners may prohibit importation into a Party's territory of copies of a computer program or other copyrightable work.²⁸ Clearly, NAFTA covers more than just direct infringements; and the right to authorize reproductions under NAFTA²⁹ should extend to contributory infringers who do not directly infringe but actively participate in the infringing acts of others. Thus, liability in one country may be premised upon the wrongful authorization of an infringing act, even if the ultimate commission of the act takes place in another country.

Each Party to NAFTA is required to provide a term of protection for sound recordings of at least 50 years from the end of the year in which fixation of the sound recording was made.³⁰ NAFTA also prohibits commercial rental of sound recordings unless such rentals are authorized by the copyright holder.³¹ NAFTA requires that the producer of a sound recording and the composer of the musical compositions in the sound recording each consent to rental of the sound recording.

Under United States law, full copyright protection is granted only after registration of the copyright.³² A copyright owner prevailing in an infringement action in the United States is barred from recovery of either statutory damages or attorney fees if the copyrightable work has not been registered in the United States Copyright Office prior to commencement of the infringing activity.³³ This bar to receiving statutory damages or attorney fees is absolute, and it cannot be circumvented to allow for partial recovery of such damages once registration has been made.³⁴ For foreign nationals under the Berne Convention, the copyright registration requirement is no longer a prerequisite to filing suit in the United States.³⁵ However, the requirement of preinfringement registration, as a condition to the recovery of statutory damages and attorney fees, remains a hidden trap which may effectively bar foreign authors (or others unfamiliar with United States copyright law) from such remedies.³⁶ Clients should be advised to seek registration, thereby facilitating full enjoyment of United States copyright remedies.

NAFTA provides an interesting provision regarding copyright notice formalities. NAFTA requires the United States to protect motion pictures produced in another Party's territory that have been declared to be in the public domain under United States law for failure to comply with the United States copyright notice requirements to the extent consistent with the United States Constitution and subject to budgetary considerations.³⁷ Under United States law, prior to its amendment in 1989 to conform to the Berne Convention, the failure to affix a copyright notice to copies of works publicly distributed anywhere in

26. NAFTA, Art. 1706(1)(d).

27. NAFTA, Art. 1705(2).

28. NAFTA, Art. 1705(2)(a).

29. NAFTA, Art. 1705(2)(b).

30. NAFTA, Art. 1706(2).

31. NAFTA, Art. 1706(1)(d).

32. 17 U.S.C. § 412 (1988).

33. *Id.*

34. 17 U.S.C. § 412(2) (1988).

35. 17 U.S.C. § 408(a) (1988).

36. This is due to the fact that, although § 408(a) says that registration is not a condition of copyright protection, it does not say anything about the caveat in § 412.

37. See NAFTA Annex 1705.7.

the world was likely to divest the work of United States copyright protection.³⁸ Prior to 1989, there was an absolute requirement in the United States that the copyright notice appear on all works publicly distributed anywhere in the world, even in countries that have no such notice requirement.³⁹ NAFTA requires the United States to protect such foreign motion pictures, even in the absence of a copyright notice.⁴⁰

4. Trade Secrets—

NAFTA provides legal protection to trade secrets.⁴¹ Trade secret protection is afforded under a standard of relative secrecy, rather than absolute secrecy. The matter may be protected as a trade secret if it is not generally known, even if certain information about the trade secret is publicly available.⁴² Further, subject matter is protectable as a trade secret if it has either actual or potential commercial value as a result of not being generally known.⁴³ NAFTA permits the Parties to require documentation as a precondition to trade secret protection.⁴⁴ For example, the trade secret matter may be evidenced by documents, electronic or magnetic means, optical discs, or other similar instruments.⁴⁵ NAFTA most likely will not protect “know-how” that is not specifically embodied in documents or drawings. NAFTA protection of trade secrets ordinarily is perpetual, so long as the information remains a secret and has not become generally known to the public.⁴⁶

Significantly, NAFTA requires that data submitted to governmental or administrative agencies for approval of pharmaceutical or agricultural chemical products must be kept confidential.⁴⁷ Parties to NAFTA are required to protect such data where its origination involves considerable effort, except in those cases where disclosure is necessary to protect the public or where steps are taken to make sure that the data is protected against unfair commercial use.⁴⁸ This is generally known as the “public interest” exception to the protection of trade secrets under NAFTA.

The public interest exception is important in pharmaceutical businesses where products must be approved by governmental agencies prior to their being marketed. Proprietary data submitted in connection with such product approvals may not be used by competitors without approval for at least a reasonable period of time after submission.⁴⁹ A “reasonable period” is defined as not less than five years from the date the submitting Party granted approval, taking into account the nature of the data and the effort and expenditures in producing the data.⁵⁰

At least one provision of NAFTA, the standard by which improper use of trade secrets is determined, adversely impacts trade secret and unfair competition protection. Under NAFTA, a breach of contract, breach of confidence or inducement to breach which results in the wrongful acquisition of proprietary information is actionable only if the acquiring Party knew or was grossly negligent in failing

38. 17 U.S.C. § 408(a) (1988).

39. See 17 U.S.C. § 401-12 (prior to statutory changes to 17 U.S.C. § 405).

40. NAFTA Annex 1705.7.

41. NAFTA, Art. 1711.

42. NAFTA, Art. 1711(1).

43. NAFTA, Art. 1711(1)(b).

44. NAFTA, Art. 1711(2).

45. *Id.*

46. NAFTA, Art. 1711(3).

47. NAFTA, Art. 1711(5).

48. *Id.*

49. NAFTA, Art. 1711(6).

50. NAFTA, Art. 1711(6).

to know that such practices were involved in its acquisition.⁵¹ Under NAFTA, therefore, “commercial dishonesty” is measured by reference to bad intent or grossly negligent action, a difficult standard of liability to prove in most trade secret and unfair competition cases. Trade secret and unfair competition enforcement under NAFTA is weakened by this relatively high standard of culpability.

5. *Trademarks*—

The trademark aspects of NAFTA⁵² are perhaps the least controversial of the intellectual property provisions, and they have been endorsed by most United States trademark practitioners. Parties are required to meet several standards in their domestic trademark laws. However, certain provisions of Mexico’s new industrial property law that give the Mexican government very broad “public policy” authority to regulate the use of trademarks may be controversial.

Under NAFTA, trademarks may include designators for goods or services. A trademark is recognized as “any sign, or any combination of signs, capable of distinguishing goods or services of one person from those of another, including personal names, designs, letters, numerals, colors, figurative elements, or the shape of goods or of their packaging.”⁵³

NAFTA requires Parties to protect famous trademarks and service marks, even if not used or registered by the owner in the territory where the alleged infringement occurs.⁵⁴ In this way, the owners of well known marks may prevent unfair trade in geographical markets which they have not yet entered. One interesting question is whether or not the protected mark must be well known in the infringing territory as well as in the territory from which the mark originated. NAFTA provides that “no [P]arty may require that the reputation of the trademark extend beyond the sector of the public that normally deals with the relevant goods or services.”⁵⁵ Further, in cases where identical marks are used on identical goods, “a likelihood of confusion shall be presumed.”⁵⁶

Each Party must provide a system of trademark registration including provisions for interested persons adversely affected by registration of a mark to petition for cancellation of a registration.⁵⁷ NAFTA does not require, however, that there be an opportunity to oppose registration of a mark before the registration issues.⁵⁸

Ultimately, a trademark must be put into use to maintain its registration. NAFTA allows a Party to make ultimate issuance of the registration dependent upon use, but they must still allow at least three years from the date of application for such use to occur before denying registration.⁵⁹ The NAFTA provisions as to use of trademarks are largely consistent with United States trademark practice under the intent-to-use provisions of the Lanham Act, which require applicants to file proof of use of a mark within six months after issuance of a notice of allowance by the United States Trademark Office.⁶⁰ Additional six month extensions of time may be obtained, and the deadline for filing the required statement of use

51. NAFTA, Art. 1721 (defining what “in a manner contrary to honest commercial practices,” means in relation to Art. 1711(1)).

52. NAFTA, Art. 1708.

53. NAFTA, Art. 1708(1).

54. NAFTA, Art. 1708(6) (incorporating Article 6 of the Paris Convention for the Protection of Industrial Property).

55. NAFTA, Art. 1708(6).

56. NAFTA, Art. 1708(2).

57. NAFTA, Art. 1708.

58. NAFTA, Art. 1708(4).

59. NAFTA, Art. 1708(3).

60. 15 U.S.C. § 1051(d)(2) (1988).

in the United States may be further extended for additional periods aggregating not more than twenty-four months upon a showing of good cause by the applicant.⁶¹

The initial registration of a trademark under NAFTA shall be for a term of at least ten years and shall be indefinitely renewable for terms of not less than ten years.⁶² Further, there is a presumption of abandonment arising from two consecutive years of nonuse of a trademark, unless valid reasons are shown for the nonuse.⁶³ Examples of valid reasons for nonuse include import restrictions or other government requirements for "goods or services identified by the trademark."⁶⁴

Compulsory licensing of trademarks is not permitted under NAFTA.⁶⁵ The prohibition against compulsory licensing flows from the very nature of a trademark. Trademark property rights arise from their association with the goodwill of a particular business. Quality control of products distributed by a trademark owner is a key consideration in maintaining the value of a trademark and is vital to insure that goods distributed by a licensee are maintained at sufficient quality to meet the standards of the trademark owner. Compulsory licensing destroys the trademark owner's ability to maintain and police the quality control of goods produced pursuant to license.

NAFTA requires that each Party to provide a means for interested persons to prevent the use or registration of misleading or unfairly competitive geographical identifiers.⁶⁶ Trademarks consisting of geographical indications that are misdescriptive, or would tend to mislead the public as to the geographical origin of the goods, are precluded from registration under NAFTA.⁶⁷

6. *Moral Rights*—

The United States is virtually alone among industrialized countries in its longstanding refusal to recognize "moral rights" in works of authorship, and in the perpetuation of statutory bars to the full measure of relief in copyright cases. The United States' adherence to NAFTA will not change its intellectual property law in that regard.

NAFTA expressly provides that it imposes no obligations upon the United States to comply with the requirements of Article 6 of the Berne Convention, which sets forth certain noneconomic moral rights to protect against misattribution and mutilation or other alteration of an author's work.⁶⁸ Such moral rights ordinarily can be asserted by an author even after the author has transferred to another all copyright interests in his or her work.

The moral rights theory is inconsistent with United States concepts of property ownership. As to property ownership, whether intellectual or otherwise, United States law generally does not recognize additional rights beyond those that ordinarily would be transferred by assignment of property to someone else. The United States repeatedly has resisted the imposition of moral rights into its law. When the United States finally agreed to the Berne Convention in 1988, its lawmakers advanced the position that existing United States laws already afforded sufficient basic moral right protections to meet minimum standards under Berne even though it was consistently acknowledged by courts, commentators, and even the United States legislature that such laws did not meaningfully protect moral rights. NAFTA represents

61. 15 U.S.C. § 1051(d)(2) (1988).

62. NAFTA, Art. 1708(7).

63. NAFTA, Art. 1708(8).

64. *Id.*

65. NAFTA, Art. 1708(11).

66. NAFTA, Art. 1708(4).

67. NAFTA, Art. 1712(2).

68. NAFTA Annex, Art. 1701.3(2).

a compromise, and it was shaped to avoid imposing the legal duty upon the United States to protect such rights.

7. *Enforcement of NAFTA Provisions—*

Each Party under NAFTA is required to make available, under its laws, enforcement procedures to facilitate effective action against infringement of intellectual property rights, including provisions for “expeditious remedies to prevent infringements and remedies to deter further infringement.”⁶⁹ Judicial proceedings must be made available without undue delay, and decisions preferably shall be in writing, stating the reasons upon which the decisions are based.⁷⁰ Administrative decisions may be reviewed by judicial authorities.⁷¹

NAFTA’s intellectual property enforcement procedures include a requirement that an alleged infringer be afforded basic due process, providing notice and an opportunity to be heard, with provisions to safeguard confidential information in such proceedings.⁷² Further, a tribunal may draw negative inferences from a litigant’s failure to comply with the disclosure requirements.⁷³ A judicial tribunal has the authority to require the infringer to pay damages and expenses, including appropriate legal fees.⁷⁴ Further, infringing materials may be disposed of so as to minimize the risk of further infringement.⁷⁵

Injunctive relief is available, and each Party to NAFTA is required to authorize prompt injunctive remedies to prevent entry of imported goods, and to prevent infringement.⁷⁶ As is customary in cases of injunctive relief, the intellectual property owner must post adequate security to protect the defendants against an improper or overreaching injunction.⁷⁷ *Ex parte* injunctive relief is available where there exists a risk of the destruction of evidence.⁷⁸

Criminal procedures and penalties must be applied by Parties in cases of willful trademark counterfeiting or copyright piracy on a commercial scale.⁷⁹ In other areas of intellectual property, parties may also provide criminal procedures or penalties in other areas of intellectual property where the acts are committed willfully and on a commercial scale.⁸⁰ Criminal sanctions may include fines, imprisonment, seizure, forfeiture, destruction of infringing goods, and similar actions.⁸¹

B. *The Implementing Legislation and Section 104 Patent Amendments*

Two primary concerns exist regarding the NAFTA implementing legislation. The first is that it does not clarify the distinctions between obtaining a patent and defeating another’s patent, or how the issuance of multiple patents on the same invention may be avoided. The second concern is that the discovery provision providing for an inference in the case of nonproduction of priority evidence may be

69. NAFTA, Art. 1714(1). Articles 1714–18 contain a detailed framework for the enforcement of intellectual property rights under NAFTA.

70. NAFTA, Art. 1714(3).

71. NAFTA, Art. 1714(4).

72. NAFTA, Art. 1715(1).

73. NAFTA, Art. 1715(2)(b).

74. NAFTA, Art. 1715(2)(d), (e).

75. NAFTA, Art. 1715(5)(a).

76. NAFTA, Art. 1716(1)(a).

77. NAFTA, Art. 1716(2).

78. NAFTA, Art. 1716(4).

79. NAFTA, Art. 1717(1).

80. NAFTA, Art. 1717(3).

81. NAFTA, Art. 1717(2).

construed as a weak provision and may not be interpreted in a manner sufficient to protect the interests of a party who may be adversely affected. The problem is that alleged inventors cannot easily obtain information in a foreign country regarding facts of prior invention that would be available in the United States under our discovery procedures.

One of the most controversial aspects of NAFTA relates to the provision that patents shall be "available" and "enjoyable" without regard to the territory of the Party where the invention was made.⁸² The NAFTA implementation legislation was necessary to amend section 104 of the United States Patent Act to permit an applicant for patent or patentee to establish a date of invention in a NAFTA country.⁸³ Section 331 of the NAFTA implementation legislation provides:

§ 104. Invention made abroad

(a) IN GENERAL — *In proceedings in the Patent and Trademark Office, in the courts, and before any other competent authority, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country other than a NAFTA country, except as provided in sections 119 and 365 of this title. . . . To the extent that any information in a NAFTA country concerning knowledge, use, or other activity relevant to proving or disproving a date of invention has not been made available for use in a proceeding in the Office, a court, or any other competent authority to the same extent as such information could be made available in the United States, the Commissioner, court, or such other authority shall draw appropriate inferences, or take other action permitted by statute, rule, or regulation, in favor of the party that requested the information in the proceeding.*⁸⁴

The intent of this amendment is to enable proof of a date of invention in a NAFTA country for the purposes of establishing priority of invention to assure availability of patent rights and enjoyment of patent rights without discrimination as to the territory of invention.

It may be argued that the section 104 amendment goes too far and could be used improperly to invalidate a United States patent by reference to "prior art" activities occurring abroad. It is most likely not intended, however, that amended section 104 would permit establishing a date of invention in a NAFTA country outside the U.S. to create prior art to defeat another's patent. The distinction between establishing (1) a date of invention in a NAFTA country outside the United States to win a priority contest, and (2) establishing knowledge or use outside the United States to defeat an otherwise valid United States patent is highly debateable.

To understand the impact of amended section 104, one must briefly review applicable provisions of United States law. In the United States, a patent applicant (or patentee) is not entitled to a patent under section 102(a) or section 102(g) if there was prior knowledge, use, or invention "in this country" by "others" or "another."⁸⁵ Amended section 104 does not modify any of the language of existing section 102 of Title 35, including section 102(a) or section 102(g). In particular, it does not modify the limitation "in this country" in these two subsections.

Under sections 102(a) and (g), a patent applicant may prove a date of invention anywhere in the world to antedate a date of prior knowledge, use, or invention of others or another without any requirement that the applicant's date of invention be in this country.⁸⁶ However, previously existing

82. NAFTA, Art. 1709(7) provides:

7. Subject to paragraphs 2 and 3, patents shall be available and patent rights enjoyable without discrimination as to the field of technology, the territory of the Party where the invention was made and whether products are imported or locally produced.

83. North American Free Trade Agreement Implementation Act, Pub. L. No. 103-182, 107 Stat. 2057 (1993).

84. NAFTA Implementation Act, § 331 (emphasis added).

85. 35 U.S.C. § 102 (1988).

86. *Id.*

section 104 prevented an applicant for patent (or patentee) under section 102(a) and section 102(g) from establishing a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in any foreign country.

Amended section 104 removes this limitation for NAFTA countries by permitting an applicant to establish a date of invention in a NAFTA country.⁸⁷ Amended section 104 does not apply in other foreign countries that are not Parties to NAFTA. For example, certain activity in Mexico may provide an invention date under NAFTA, whereas the same activity in France would not provide an invention date because France is not a party to NAFTA. Nevertheless, non-NAFTA countries may soon be subject to a similar set of priority rules under GATT.⁸⁸

The scope of the amendment to section 104 is limited by the language of section 102 wherein the limitations "in this country" or "in the United States" appear. Sections 102(a) and (g) allow an applicant for patent (or patentee) to prove a date of invention without any limitation as to where the invention was made, on the one hand, but limit proof of a date of prior knowledge, use, or invention of others or another to date of invention in this country, on the other hand.⁸⁹

The amendments to section 104 apply to all patent applications filed on or after the date of the enactment of NAFTA.⁹⁰ "[A]n applicant for patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a NAFTA country, . . . that is earlier than the date of enactment of NAFTA."⁹¹ Thus, NAFTA is not retroactive with respect to section 104, and it will mostly likely be quite some time before an interference in the United States Patent Office is resolved in favor of a Mexican or Canadian inventor in reliance upon amended section 104.

The impact of new section 104 may be relatively small compared to similar provisions currently under consideration in the implementation of GATT. The reason is that GATT involves many more countries. For example, Canadian patent filings in the United States average about 3,948 per year.⁹² Mexican patent filings in the United States average only about 96 per year.⁹³ Recent statistics indicate that slightly less than 0.5% of United States patent filings are involved in interferences, meaning that the total number of applications filed by Canadian and Mexican interests that actually wind up adjudicated in a United States patent interference proceeding is only about 21 each year.

On the other hand, the impact of amended section 104 as applied to GATT may be much more substantial. The total number of foreign filings in the United States each year averages about 78,168.⁹⁴ Since only approximately 0.5% of the total number of patent applications filed in the United States wind up in interferences, this calculates to an average of approximately 391 foreign applications undergoing interferences in the United States each year. GATT will include a large number of the industrialized foreign nations; and, therefore, the potential impact of amended section 104 is much greater under GATT than under NAFTA.

87. NAFTA Implementation Act, § 331.

88. See discussion of GATT below.

89. 35 U.S.C. § 102 (1988).

90. NAFTA Implementation Act, § 331.

91. NAFTA Implementation Act §335.

92. This data represents filings for the year 1990-1992. This figure represents about 2.2% of the total United States patent filings of about 179,413 per year.

93. This data is for the years 1990-1992. It represents approximately 0.05% of the total United States patent filings of 179,413 per year.

94. For 1991-1992.

1. Amended Section 104 Will Not Result in Multiple Patents for the Same Invention—

There has been some concern that the section 104 amendments may result in the possibility of issuance of multiple patents, after an interference contest, on inventions that are not patentably distinct under sections 102(g) and 103. Under this hypothesis, all the parties to an interference might be able to establish a date of invention in the United States or in a NAFTA country before another's date of invention "in this country." While section 102(g) would not prevent such a result, the doctrine of "interference estoppel," which does not depend upon section 102(g), should prevent such a result.⁹⁵

Assume, for the sake of argument, the following hypothetical example. Alpha, in an interference proceeding, relies upon a date of invention in Mexico under amended section 104 to establish prior inventorship over an opponent, Beta. Nevertheless, Alpha's filing date in the United States is after Beta's date of invention in the United States. In this circumstance, both Alpha and Beta would be entitled to a patent based solely on a mechanistic application of the language of section 102(g). The same circumstances could, of course, occur in interferences involving more than two parties.

Clarifications to the legislative history of section 104 have been suggested to avoid the possibility of issuance of multiple patents on inventions that are not patentably distinct from each other. Discussion is now centered upon clarification of the implementation of Article 27 of the GATT TRIPs Agreement to eliminate the perceived possibility of multiple patent issuance under GATT by amendment of section 104.

2. The Negative Inference Applies to Withheld Proof of Priority—

One of the significant aspects of amended section 104 is the provision that provides for the possibility of a negative inference where documents or depositions are withheld that would otherwise assist in proving or disproving priority of invention in a NAFTA country.⁹⁶ United States practitioners were afraid, for good reason, that inventors in Canada or Mexico could claim priority without affording a United States inventor the opportunity to conduct appropriate discovery. Discovery of documents, depositions, and other techniques available to United States inventors in interference proceedings or priority contest proceedings are largely unavailable or severely restricted in foreign countries. Thus, a mechanism was needed to ensure that no unfair prejudice would attach to domestic inventors under NAFTA.

The American Intellectual Property Law Association (AIPLA) recommended to United States Trade Representative Michael Kantor on February 23, 1993 that changes be made in the existing two sentences of section 104.⁹⁷ Further, these changes were recommended to the United States Patent & Trademark Office and the House and Senate Judiciary Committees.⁹⁸ The AIPLA changes would have added a sentence setting forth an absolute bar to reliance upon Canadian or Mexican invention dates in cases

95. See 37 C.F.R. § 1.658(c); *In re Deckler*, 977 F.2d 1449, 24 U.S.P.Q.2d (BNA) 1448 (Fed. Cir. 1992).

96. NAFTA Implementation Act, § 331.

97. Letter from William L. LaFuze, President of the AIPLA, to Michael Kantor, February 23, 1993.

98. *Id.*

where adequate discovery of such facts was unavailable.⁹⁹ The Clinton administration did not adopt the AIPLA recommended language but instead added a sentence in its amended version of section 104 to address issues raised by the AIPLA.

Ultimately, the following amendment to section 104 was agreed to by the government:

To the extent that any information in a NAFTA country concerning knowledge, use, or other activity relevant to proving or disproving a date of invention has not been made available for use in a proceeding in the Office, a court, or any other competent authority to the same extent as such information could be made available in the United States, the Commissioner, *court or such other authority shall draw appropriate inferences, or take other action permitted by statute, rule, or regulation, in favor of the party that requested the information in the proceeding.*¹⁰⁰

As seen above, the new law is broadly written. The intent of the law is to allow courts to use whatever statutory authority is provided in the Federal Rules of Civil Procedure or the Federal Rules of Evidence to ensure fairness to United States inventors that might otherwise be prejudiced by the inability to obtain relevant evidence to test the proofs of a Mexican or Canadian inventor.

The new law under section 104 is strongly worded. Both parties to a priority contest shall be afforded equal opportunities to present evidence and challenge the evidence of the other. Congress clearly intended this result, given the strong affirmative language of the section 104 amendment. This is evident because Congress was not required to include the changes to section 104 in the implementation of NAFTA, but nevertheless took action to see that the proof of a date of invention would not be frustrated by the inability to discover relevant information concerning alleged inventive activity in a foreign country.

Clearly, taking discovery in foreign countries is a difficult task even when the parties are involved in a proceeding in the United States and under the jurisdiction of a court or other tribunal where sanctions can be applied or inferences drawn as provided for in Rule 37(b) of the Federal Rules of Civil Procedure. However, discovery from third parties is considerably more difficult and, for practical purposes, is generally not available except in very limited circumstances. The lack of jurisdiction by the Board of Patent Appeals and by courts over third parties in foreign countries is a significant problem. Other barriers to discovery include the unwillingness of third parties to cooperate in United States proceedings and blocking statutes in many countries which greatly limit the availability of third party discovery.

The term "appropriate inferences" is subject to a somewhat wide range of interpretations. A Senate report discussed the "negative inference" provision in section 104:

Concerns were raised that the U.S. firms may be unable to probe and challenge adequately such evidence because they cannot obtain other information from Mexico or Canada relevant to the date of invention. The bill guards against such a possibility by including a provision that enables a party in such a proceeding to demonstrate that relevant information exists in Mexico or Canada and has been requested, that the information has not been made available under the laws and procedures of such countries, and that the information would be "discoverable" in the U.S. If the party can make this showing, *the decision maker must draw appropriate inferences or take any other permissible action in favor of the party that requested the information in the proceeding.* In deciding what inferences are appropriate, the decision maker should take into account all relevant facts including the importance

99. The AIPLA recommended that the following new sentence be added to Section 104:

(b) If, in a proceeding in the Patent and Trademark Office, in a court, or before any other competent authority, the testimony of a witness or the obtaining of discovery of information, documents, things or activities, relating to a date of invention, is not available, for any reason, in Canada, or in Mexico, to the same extent as if such witness, information, documents, things or activities were in the United States, an applicant or patentee in that proceeding may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in Canada, or in Mexico, except as provided in Sections 119 and 365 of this title. *Id.*

100. NAFTA Implementation Act, § 331 (emphasis added).

of the information that has not been made available, whether the information is in control of the party seeking to establish a date of invention prior to the filing date, and any other pertinent factor.¹⁰¹

Essentially the same text as above was contained in the Message from the President of the United States transmitting the NAFTA Agreement to the Congress on November 4, 1993.¹⁰²

The above legislative history is helpful in explaining the mandatory nature of the requirement to draw appropriate inferences where information is not available in a NAFTA country. It provides some guidance in deciding what inferences are appropriate. However, the PTO Board of Patent Appeals and Interferences, the courts, and other authorities may be reluctant to rigorously apply the provisions of amended section 104, especially in situations where information is sought from a third party. The legislative history may not be strong enough to assure fairness to the party seeking unavailable information.

III. GATT

A. *GATT Represents a Recognition of the Connection Between Trade and Intellectual Property*

This past year was an exciting year for GATT because on December 15, 1993, the parties to the Uruguay Round of GATT concluded their agreement. After seven years of negotiation and two postponements, the Uruguay Round of Trade Negotiations finally ended. On that same day, President Clinton addressed letters to the Speaker of the House and the President of the Senate outlining the results of the negotiations. "On the subject of the agreement on Trade-Related Intellectual Property Rights [(TRIP)], [Clinton] said the talks produced 'standards for the protection of a full range of intellectual property rights and for the enforcement of those standards both internationally and at the border.'"¹⁰³

The GATT TRIPs Agreement¹⁰⁴ represents, for the first time in the context of trade, a recognition of the connection between trade and intellectual property. The United States pressed for it, and it reflects changes in the commercial world. American intellectual property owners can no longer rely upon the safe harbor of our laws where there exists mature protection for the enforcement of intellectual property rights. This administration has used intellectual property law as a tool to achieve economic results, and it went much further than merely to recognize intellectual property as a set of natural rights.

The focus of the TRIPs discussion was the compromised text offered by GATT Director General Arthur Dunkel. By and large, the provisions of the Dunkel text of GATT were incorporated into the final agreement.¹⁰⁵ Other issues that did not make the final cut were those issues concerning the Europeans' refusal to compromise protection of domestic audiovisual works against foreign competition. That issue was never in the TRIPs agreement and is likely to become an independent dispute.¹⁰⁶

101. Joint Committee Report on the North American Free Trade Agreement Implementation Act, S. Rep. No. 103-189, 103d Congress, 1st Sess., November 18, 1993 (emphasis added).

102. See H. R. Doc. No. 103-159, 103d. Congr., 1st Sess., (1993).

103. *Treaties — Uruguay Round of GATT Talks are Concluded with IP Provisions*, 47 PAT. TRADEMARK & COPYRIGHT J. (BNA) No. 1150, p. 170 (December 23, 1993).

104. Arthur Dunkel, Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods (Annex III) (Dec. 20, 1991) (unpublished draft, on file with THE TEXAS INTELLECTUAL PROPERTY LAW JOURNAL) [hereinafter GATT TRIPs].

105. *Treaties*, 47 PAT. TRADEMARK & COPYRIGHT J. (BNA) No. 1150, p. 170 (Dec. 23, 1993).

106. *Id.*

Commissioner Bruce Lehman of the United States Patent and Trademark Office "commented that TRIPs is a good agreement overall, despite the weak points of compulsory licensing for pharmaceuticals and agrichemicals."¹⁰⁷ Other commentators pointed out that the United States' first to invent system is now significantly compromised by the provision in Article 27 requiring that patents be available "without discrimination as to the place of invention."¹⁰⁸ Thus, the same problem emerges in GATT that previously occurred in NAFTA; and a framework must be set forth to facilitate amendments to sections 102(g) and 104 of Title 35 to permit the citation of foreign acts in establishing invention dates. Further, these acts may be inaccessible to United States inventors by normal discovery means.

It has been suggested that the GATT TRIPs Agreement irrevocably pushes the United States from "first to invent" towards a "first to file" system of patent protection. Whether that prediction is true remains to be seen.¹⁰⁹

B. *United States' Objectives*

The principal negotiating objectives of the United States with respect to TRIPs are to implement adequate standards for the protection of intellectual property rights, establish effective enforcement procedures, and implement effective dispute settlement procedures that improve on existing GATT procedures. In particular, the United States seeks protection of copyrights, patents, trademarks, semiconductor chip layout designs, trade secrets and prohibitions as to unfair competition.¹¹⁰

The TRIPs Agreement establishes improved standards for the protection of a full range of intellectual property rights, and for the enforcement of such standards both internally and at the border.¹¹¹ The intellectual property rights covered by TRIPs include copyrights, patents, trademarks, industrial designs, trade secrets, integrated circuits and geographical indications.¹¹² The TRIPs Agreement achieves improved standards of protection in areas of key interest to the United States. For example, in the area of protection of geographic indications, the United States wine industry and trademark owners are safeguarded; and the United States simply will make permanent existing regulations.¹¹³ The Agreement also includes strong enforcement provisions that are critical to obtaining effective enforcement of the agreed-upon standards.¹¹⁴ Additionally, members must enforce copyrights and trademarks at their borders against counterfeiting and piracy.¹¹⁵

C. *Procedural Calendar*

The GATT TRIPs Agreement was established in Geneva, Switzerland on December 15, 1993. President Clinton notified Congress on December 15, 1993 of his intention to sign the GATT

107. *Id.* at 171.

108. GATT TRIPs, Art. 27.

109. Interestingly, on January 24, 1994, Commerce Secretary Ronald H. Brown announced that the U.S. will not seek to resume negotiations on a treaty harmonizing the world's patent laws "at this time." According to a Commerce Department news release, Brown said, "[w]hile other international negotiations continue, we will maintain our first-to-invent system while keeping open the option of full patent harmonization in the future." *U.S. Says 'Not Now' On Harmonization Talks*, IPO WASHINGTON BRIEF, Volume 16, Number 1 (January 25, 1994).

110. See GATT TRIPs, preamble.

111. See generally GATT TRIPs.

112. *Id.*

113. GATT TRIPs, Arts. 22 and 23.

114. GATT TRIPs, Part III, Arts. 1-5.

115. GATT TRIPs, Part II, Arts. 1-2.

Agreement.¹¹⁶ GATT implementation provides for a 120 advance notice under fast track procedures before the President signs the Agreement.¹¹⁷

The GATT Agreement is likely to be signed by the United States and other countries on April 15, 1994 in Marrakech, Morocco. Further, implementing legislation may be introduced at that time. If the approval process proceeds as planned, the GATT Agreement is expected to become effective for the United States on July 1, 1995, which is the target date set in the final act provisions of the Agreement.¹¹⁸ Nevertheless, GATT Ministers could establish a different effective date by early 1995.

D. Patents

The TRIPs Agreement resolves longstanding trade irritants for United States patent interests, especially those of pharmaceutical and agricultural chemical companies. For example, product and process patents will be available for virtually all types of inventions, including pharmaceuticals and agricultural chemicals.¹¹⁹ There will be meaningful limitations on the ability to impose compulsory licensing.¹²⁰ Under TRIPs, patents must be available in all fields of technology, except for (1) methods of treatment of humans and animals, and (2) plants and animals (other than microorganisms).¹²¹ GATT TRIPs provides that patents shall be available and patent rights enjoyable without discrimination as to the place of the invention, requiring that the United States further amend 35 U.S.C. section 104 to facilitate the proof of dates of invention in GATT countries.¹²²

Under TRIPs, a patent term must extend at least twenty years from the filing date of the patent.¹²³ Compulsory licensing is significantly limited by way of fourteen separate clauses in the GATT Agreement, including a limit of compulsory licenses to nonexclusive licenses assignable only with the entire business and with limited scope and duration.¹²⁴ In the case of semiconductor technology, for example, compulsory licensing is permitted only for "public noncommercial use" or to remedy an anti-competitive practice.¹²⁵ This portion of TRIPs was the result of an eleventh hour amendment to the GATT Agreement.

The Agreement requires the availability of judicial review of decisions to revoke or forfeit a patent.¹²⁶ Additionally, in the case of products made by an infringing process, it places the burden of proof on the defendant to prove that the process used is distinct from the patented process where the product is new and there is a substantial likelihood that the product was made by the process.¹²⁷ Thus, like NAFTA, the burden of proof under GATT is on the alleged infringer to prove that the process used is distinguishable from the patented process.

116. House Document 103-159, Vol. 1, Message from the President of the United States, November 4, 1993, and subsequent message to Congress.

117. 19 U.S.C. § 2903 (as amended July 2, 1993 in Public Law No. 103-49).

118. GATT TRIPs, Part VII.

119. GATT TRIPs, Art. 27.

120. GATT TRIPs, Art. 31.

121. GATT TRIPs, Art. 27.

122. GATT TRIPs, Art. 27 n.1.

123. GATT TRIPs, Art. 33.

124. GATT TRIPs, Art. 31.

125. GATT TRIPs, Art. 31(c).

126. GATT TRIPs, Art. 32.

127. GATT TRIPs, Art. 34.

The GATT Agreement, like the NAFTA Agreement, protects trade secrets.¹²⁸ Information submitted to obtain approval of the marketing of a pharmaceutical or agricultural chemical utilizing a new chemical entity is protected against unfair commercial use and disclosure unless such use or disclosure is necessary to protect the public.¹²⁹

E. Implementation of Territorial Priority in Article 27

There is a good possibility that implementing legislation will be introduced at the time President Clinton is required to sign the GATT Agreement. Once introduced, the implementing legislation cannot be changed by the Congress. It must be voted up or down without amendment and within a total of ninety legislative days of the date the President submits the Agreement and implementing legislation to the Congress under the fast track procedures of GATT.

NAFTA provides in part that "patents shall be available and patent rights enjoyable without discrimination as to ... the territory of the party where the invention was made."¹³⁰ Article 27 of the GATT TRIPs contains essentially the same provision. Article 27 requires that "patents shall be available and patent rights enjoyable without discrimination as to the *place of the invention*." (emphasis added)

Both NAFTA and GATT generally require that an inventor making an invention in a participating country must be able to obtain a United States patent and enforce it as if the invention had been made in the United States.¹³¹ GATT will require appropriate implementing legislation on this issue, and GATT contains other patent provisions that must be implemented by legislation including the definition of exactly what constitutes infringement.¹³² Further, GATT will require implementing legislation setting a minimum term for patents of twenty years from the filing date of the patent application.

F. First to File Provides an Alternative to Article 27 Implementation Legislation

This discussion cannot possibly treat all of the issues that arise in the first to file debate, and arguments as to those issues are left for others to resolve pursuant to harmonization negotiations. Nevertheless, it is evident that one way of implementing GATT is to adopt a first to file system in the United States with appropriate modifications to the patent law, including the deletion or amendment of section 104. Such an implementation would eliminate the difficulties of obtaining discovery in foreign countries in connection with proving or disproving a date of invention for purposes of priority in another country. The first filer wins under a first to file system, and that is the end of the inquiry.

Such an implementation of GATT TRIPs, however, would require a major shift in United States patent law from a first to invent to a first to file system. Additionally, United States Commerce Secretary Ron Brown recently announced that the United States will not seek to resume negotiations on a harmonization treaty.¹³³ Thus, adoption of a first to file system in the United States seems unlikely in the near future.

The adoption of a first to file system requires resolution of controversial issues relating to, among others, prior user rights under which continued use could be permitted by a first inventor who does not

128. GATT TRIPs, Art. 39.

129. GATT TRIPs, Art. 39(3).

130. NAFTA, Art. 1709(7).

131. NAFTA, Art. 1701; GATT TRIPs, Art. 1.

132. GATT TRIPs, Art. 28.

133. See *supra* note 109.

abandon, suppress, or conceal the invention.¹³⁴ Further, implementation of GATT with an expansion of section 104 along the lines of the NAFTA section 104 amendments may serve the purpose of preserving the negotiating position of the United States if patent harmonization negotiations are resumed at some point in the future. Adopting a first to file system merely for the purpose of GATT implementation probably would not maximize the negotiating interests of the United States.

IV. Conclusion

NAFTA and GATT are changing the way the world views intellectual property rights. The intellectual property provisions of NAFTA and GATT are sweeping in scope. Further, the changes in intellectual property law brought about by the implementation of NAFTA cannot properly be considered without reference to related and important provisions in the GATT Agreement.

NAFTA is a step in the right direction. NAFTA is intended to bolster and harmonize the domestic intellectual property laws of the United States, Mexico, and Canada. Nevertheless, it represents a series of compromises implemented by each participating country. NAFTA is not perfect.

Non-discriminatory national treatment of intellectual property under NAFTA, and the establishment of certain minimum standards for protection of sound recordings, computer programs and proprietary data, are welcome additions to the intellectual property laws. The basic protections afforded to computer software under NAFTA and its prohibitions against commercial software rental signal a major advance in curbing illicit copying of computer programs. The United States is the source of a large volume of valuable intellectual property rights comprising, among other things, computer programs and sound recordings. Prevention of piracy will assist each NAFTA country in establishing long-lasting and meaningful commercial relationships with each other.

134. See 35 U.S.C. § 102(g) (1988).