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## ”Special 301”

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# ”Special 301”

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## **Abstract**

Update: In April 1991, Special 301 requires the U.S. Administration again to identify any “priority foreign countries” that fail to provide adequate and effective protection of intellectual property rights, or deny fair and equitable market access to U.S. nationals who rely upon intellectual property protection. The time is ripe, then, to re view the Administration’s use of these tools to seek to enhance worldwide protection of intellectual property rights.

# UPDATE

## “SPECIAL 301”

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### INTRODUCTION

Earlier in this *Journal*, we described two intellectual property provisions of the 1988 trade legislation.<sup>1</sup> To enhance protection by foreign governments of intellectual property rights, the Omnibus Trade and Competitiveness Act of 1988 (the “1988 Trade Act”)<sup>2</sup> established principal negotiating objectives for intellectual property in the Uruguay Round of multilateral trade negotiations,<sup>3</sup> and created Special 301.<sup>4</sup>

The Uruguay Round negotiations were originally scheduled to conclude in December 1990. In April 1991, Special 301 requires the U.S. Administration again to identify any “priority foreign countries”<sup>5</sup> that fail to provide adequate and effective protection of intellectual property rights, or deny fair and equitable market access to U.S. nationals who rely upon

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1. Bello & Holmer, “*Special 301*”: *Its Requirements, Implementation, and Significance*, 13 *FORDHAM INT'L L.J.* 259 (1989-1990).

2. Pub. L. No. 100-418, 102 Stat. 1107 (1988) (codified at scattered sections of 19 U.S.C.).

3. 19 U.S.C. § 2901(b)(10) (1988). The Uruguay Round negotiations were launched in 1986 under the auspices of the General Agreement on Tariffs and Trade (“GATT”), *opened for signature* Oct. 30, 1947, 61 Stat. pts. 5 & 6, T.I.A.S. No. 1700, 55 U.N.T.S. 187. The negotiations were intended to strengthen the existing GATT rules and to extend GATT to the “frontier” areas of intellectual property protection, services, and investment. The 1988 Trade Act facilitated negotiations by making a bill to implement their outcome eligible (under certain conditions) for congressional consideration under “fast track” procedures, ensuring timely votes by the U.S. House of Representatives and the U.S. Senate and precluding unraveling amendments. 19 U.S.C. § 2903 (1988).

4. 19 U.S.C. § 2242 (1988).

5. *Id.* § 2242(a)(2).

intellectual property protection. The time is ripe, then, to review the Administration's use of these tools to seek to enhance worldwide protection of intellectual property rights.

## I. SPECIAL 301

### A. *The Requirements of Special 301*

As previously explained in detail,<sup>6</sup> the Special 301 provisions of the 1988 Trade Act require the Office of the U.S. Trade Representative (the "USTR")<sup>7</sup> to identify annually "priority foreign countries" (1) whose failure to protect intellectual property is the most onerous and has the greatest adverse impact on U.S. products; and (2) that are not entering into good faith negotiations or making significant progress in negotiations (multilateral and bilateral) to provide adequate and effective protection of intellectual property rights.<sup>8</sup> Such identification normally triggers an investigation of such country's intellectual property practices,<sup>9</sup> which may lead to retaliation against such country if it refuses to reform its practices satisfactorily.<sup>10</sup>

### B. *Implementation of Special 301*

#### 1. 1989 Activity

In its first implementation of Special 301 in May 1989, the USTR declined to identify any priority foreign countries. Instead, it created a Watch List and Priority Watch List of problem countries.<sup>11</sup> It named eight countries to the Priority Watch List: Brazil, India, Mexico, the People's Republic of

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6. Bello & Holmer, *supra* note 1, at 261-63.

7. Operating within the Executive Office of the U.S. President, the Office of the U.S. Trade Representative (the "USTR") is the Executive Branch agency responsible for developing and coordinating the trade policy of the United States. See 19 U.S.C. § 2271(c) (1988); Reorg. Plan No. 3 of 1979, 44 Fed. Reg. 69,273; Exec. Order No. 12,188, 45 Fed. Reg. 989.

8. 19 U.S.C. § 2242(b)(1) (1988).

9. *Id.* § 2412(b)(2).

10. Retaliation is not required in such cases, unless the country has breached an agreement with the United States. *Id.* § 2411.

11. Office of the U.S. Trade Representative, *Fact Sheet: "Special 301" on Intellectual Property 1* (May 25, 1989), reprinted in 6 Int'l Trade Rep. (BNA) No. 22, at 718 (May 31, 1989) (copy on file at the *Fordham International Law Journal* office) [hereinafter *Fact Sheet*].

China, Saudi Arabia, South Korea, Taiwan, and Thailand.<sup>12</sup> The USTR named seventeen countries to the Watch List: Argentina, Canada, Chile, Colombia, Egypt, Greece, Indonesia, Italy, Japan, Malaysia, Pakistan, the Philippines, Portugal, Spain, Turkey, Venezuela, and Yugoslavia.<sup>13</sup>

In taking this creative approach, the USTR sought to implement Special 301 in a manner that would increase prospects for a successful outcome in the Uruguay Round negotiations on Trade-Related Intellectual Property Rights ("TRIPs"). The strategy was to jump-start the multilateral TRIPs talks in Geneva through a credible but distant threat of possible U.S. unilateral action.

The USTR undertook a self-imposed review of progress in intellectual property negotiations with Watch List and Priority Watch List countries in November 1989.<sup>14</sup> It moved three countries—Saudi Arabia, South Korea, and Taiwan—from the Priority Watch List to the Watch List, based on "steady"<sup>15</sup> or "substantial"<sup>16</sup> progress. Otherwise, the Watch List and Priority Watch List remained unchanged.

The USTR concluded its interim review with a commitment to continue to press for improvements from all twenty-five countries. It stressed it would pay particular attention to the contributions of those countries and their positions in the Uruguay Round TRIPs negotiations.<sup>17</sup>

## 2. 1990 Activity

In the spring of 1990, the USTR announced its continuation of the Watch List and Priority Watch List. Portugal and Mexico were removed from the lists, but the other twenty-three countries remained.<sup>18</sup> It again declined to identify any "priority foreign countries."<sup>19</sup>

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12. *Id.*

13. *Id.* at 3, reprinted in 6 Int'l Trade Rep. (BNA) No. 22, at 719 (May 31, 1989).

14. Office of the U.S. Trade Representative, *Hills Announces Results of Special 301 Review* (Nov. 1, 1989) (copy on file at the *Fordham International Law Journal* office).

15. *Id.* at 4.

16. *Id.* at 3.

17. *Id.* at 5.

18. Office of the U.S. Trade Representative, *Hills Announces Results of Special 301 Review* (Apr. 27, 1990) (copy on file at the *Fordham International Law Journal* office).

19. Office of the U.S. Trade Representative, "Special 301" on Intellectual Property (Apr. 27, 1990) (copy on file at the *Fordham International Law Journal* office).

The USTR did not issue a second interim report, which would have occurred just five weeks before the scheduled conclusion of the Uruguay Round.

## II. THE URUGUAY ROUND TRIPs NEGOTIATIONS

### A. Uruguay Round Milestones

#### 1. Launching the Round

In spearheading the launch of the Uruguay Round in September 1986, a key objective of the United States was to extend the General Agreement on Tariffs and Trade (the "GATT") to provide for the protection of intellectual property rights. The United States sought a multilateral agreement that would establish adequate substantive and enforcement standards, as well as effective dispute settlement procedures and remedies.<sup>20</sup> For example, while the Berne Convention covered various intellectual property issues,<sup>21</sup> it was not comprehensive or adequate. The United States succeeded in securing the agreement of its trading partners to make TRIPs one of the negotiating groups.<sup>22</sup>

From the outset, however, it was clear that the TRIPs negotiations would be difficult. The subject was substantively complex and technical, and generally unfamiliar to many trade experts. It involved new agencies within many government bureaucracies. Even among developed countries, there were strong differences of view.<sup>23</sup> Finally, many developing countries opposed stronger, more comprehensive protection of intellectual property rights. While developed countries, led by the United States, decried piracy and the threat to future innovation and creativity, some developing countries openly championed the short-term benefits of cheaper and better products for their poorer consumers.

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20. 19 U.S.C. § 2901(b)(10) (1988).

21. *E.g.*, Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1986, reprinted in WORLD INTELLECTUAL PROPERTY ORGANIZATION, GUIDE TO THE BERNE CONVENTION (1978).

22. GATT, *Ministerial Declaration on the Uruguay Round 7* (Sept. 20, 1986) (copy on file at the Fordham International Law Journal office).

23. For example, Canada and Japan were placed on the Special 301 Watch List. *Fact Sheet*, *supra* note 11, at 3, reprinted in 6 Int'l Trade Rep. (BNA) No. 22, at 719 (May 31, 1989).

## 2. Mid-Term Review

The mid-term review of progress in the Round, held in Montreal in December 1988, reflected the TRIPs difficulties. While Ministers reached satisfactory accords in eleven negotiating groups, four—including TRIPs<sup>24</sup>—could not then be resolved. Consequently, a special GATT session was convened in April 1989, at which negotiating plans for TRIPs and the other three problem areas were finally agreed upon.<sup>25</sup>

### B. *Scheduled Conclusion*

The entire Round, including the TRIPs negotiations, was scheduled to conclude at a ministerial meeting in Brussels December 3-7, 1990. However, talks collapsed in all negotiating groups largely due to intransigence by the European Communities in the agriculture negotiating group.<sup>26</sup>

As of the writing of this update article,<sup>27</sup> talks are scheduled to be resumed in Geneva. Even if the impasse in agriculture is overcome, many disagreements still plague the TRIPs (and other) negotiations, the text of which is riddled with bracketed language. When talks resume, negotiators will be besieged as well with a fast-looming deadline: authority for U.S. implementing legislation to be considered under "fast track" procedures<sup>28</sup> effectively expired March 1, 1991. It automatically will be restored for two years in response to the President's request, provided neither house of the U.S. Congress disapproves his request prior to May 31, 1991.<sup>29</sup>

## III. *OUTLOOK FOR SPECIAL 301 AND THE URUGUAY ROUND TRIPs TALKS*

The outcome in the Uruguay Round TRIPs negotiations

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24. The other three problem areas were agriculture, safeguards, and textiles. GATT Secretariat, Multilateral Trade Negotiations, Trade Negotiations Committee, *Trade Negotiations Committee Meeting at Ministerial Level* (Dec. 9, 1988) (restricted document).

25. Office of the U.S. Trade Representative, *GATT Uruguay Round Mid-Term Agreements Achieved* (Apr. 8, 1989).

26. The White House, Office of the Press Secretary, *Statement of the President* (Dec. 7, 1990).

27. January 1991.

28. See *supra* note 3 and accompanying text (discussing "fast track" procedures).

29. 19 U.S.C. § 2903 (1988); *id.* § 2191.

and the outlook for future implementation of Special 301 are inextricably intertwined. Our earlier Article in this *Journal* concluded:

However, the continued ability to keep nearly everyone happy concerning intellectual property protection depends on the successful conclusion of the Uruguay Round by the end of 1990. If a satisfactory agreement on intellectual property is not achieved in 1990, the USTR will be hard pressed by both the Congress and the private sector to identify priority foreign countries in the application of Special 301 in 1991 and beyond. On the other hand, if a generally satisfactory agreement is achieved but Special 301 is nonetheless retained and implemented in a manner inconsistent with that agreement, the international community's response will be swift and harsh.<sup>30</sup>

That view remains valid today, just as the outcome of the TRIPs negotiations today remains uncertain. If the TRIPs disagreements are resolved, the text satisfactory, and the U.S. Congress persuaded to implement the Round's results, Special 301 could be repealed through the U.S. implementing legislation considered under the "fast track" procedures. Short of its repeal, it could be modified to confer on the USTR essentially a responsibility to monitor and report to the U.S. Congress on compliance with the TRIPs agreement. Alternatively, Special 301 could be left unchanged, permitting the USTR to continue its Watch List/Priority Watch List identifications if appropriate, and to identify no "priority foreign countries" if appropriate.

However, if the Uruguay Round were not concluded, or if the U.S. Congress disapproved the President's implementing legislation, the USTR would be expected to identify "priority foreign countries" and to press even harder in bilateral negotiations with countries on the Priority Watch List in particular.<sup>31</sup> Moreover, the U.S. Congress could be expected to consider

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30. Bello & Holmer, *supra* note 1, at 275.

31. While not under Special 301, the USTR initiated an investigation under generic section 301 procedures on December 21, 1990 of Thai copyright practices, and on March 15, 1991, of Thailand's failure to provide pharmaceutical patent protection. 56 Fed. Reg. 292, 11,815 (USTR 1991) (initiation). The investigation responds to a petition filed by the International Intellectual Property Alliance, the Motion Picture Export Association of America, and the Recording Industry Association of America.

bills to toughen up Special 301, perhaps seeking to require the USTR to identify at least a minimum number of priority foreign countries annually absent extraordinary or compelling circumstances. In addition, Congress conceivably could broaden the "requirement" for retaliation in certain section 301 investigations to include intellectual property cases.<sup>32</sup>

Even if the TRIPs negotiations largely succeed, however, some U.S. firms and trade associations may press the USTR for relief from lax protection of intellectual property during any transition or phase-in period to coax reluctant developing countries to approve.

Therefore, the outlook—whether for improved international protection, or increased trade tension as a result of aggressive national border measures—depends on how satisfactory the TRIPs text proves to be, whether the U.S. Administration enters into Uruguay Round agreements, and whether the U.S. Congress approves such agreements.

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32. This requirement is subject to a number of qualifications. See 19 U.S.C. § 2411(a)(2) (1988).