

**The U.S.-Chile Free Trade Agreement (FTA)  
The Intellectual Property Provisions**

**Report of the  
Industry Functional Advisory Committee on Intellectual Property  
Rights for Trade Policy Matters (IFAC-3)**

**February 28, 2003**

# **Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Chile Free Trade Agreement**

**Prepared By the**

## **Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters (IFAC-3)**

### **I. Purpose of the Committee Report**

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement<sup>1</sup> promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

The report of the appropriate sectoral or functional committee must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

Pursuant to these requirements, the Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters (IFAC-3) hereby submits the following report.

### **II. Executive Summary of Committee Report**

IFAC-3 believes that this agreement represents significant progress toward meeting the negotiating goals and objectives contained in the Trade Act of 2002 and those of the U.S. intellectual property-based industries, creators and innovators. IFAC-3, therefore, supports the Chile FTA chapter on intellectual property and commends the U.S. negotiators for a job well done. While it is unfortunate that elements of the agreement fall short of providing the same levels of protection and enforcement provided in the

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<sup>1</sup> This report is based on a review of the Chile FTA agreement dated December 17, 2002. This text is not the “final” text which at a minimum must undergo a legal “scrub” before it is submitted to the Congress and to the President. Accordingly, the final agreement may be different from the text upon which IFAC-3 has made these comments.

contemporaneously-negotiated Singapore FTA, IFAC-3 believes that the agreement establishes a number of key precedents to be included in the other FTAs now being negotiated, including the FTAA. IFAC-3 urges the Administration to examine whether the most serious deficiencies in the Chile intellectual property chapter identified in this Report can be addressed in the agreement prior to signature. Given the significant and global commercial implications of alternative levels of protection and enforcement, IFAC-3 wishes to underscore the importance that it attaches to a close working relationship between IFAC-3 and industry, on the one hand, and U.S. negotiators, on the other, in the development of a model FTA intellectual property text, which would form the basis for the negotiation of these other agreements.

### **III. Brief Description of the Mandate of IFAC-3**

As part of its mandate to provide detailed policy and technical advice, information and recommendations on trade-related intellectual property matters, IFAC-3 advised U.S. negotiators on, and reviewed draft texts of, the U.S.-Chile FTA intellectual property chapter. In particular, IFAC-3 evaluated these FTA provisions in the context of the IP-related objectives contained in the Trade Act of 2002 and the objectives and achievements of other U.S. multilateral and bilateral initiatives on intellectual property.

### **IV. Negotiating Objectives and Priorities of IFAC-3**

The negotiating objectives and priorities for IFAC-3 reflect those contained in the Trade Act of 2002 (Pub. L. No. 107-210, 116 Stat. 995 (codified at 19 U.S.C. Sec. 3802(b)(4) (2002), trade promotion authority legislation) which also provided the fast-track authority under which this Free Trade Agreement will be reviewed and voted on. Specifically, IFAC-3's objectives and priorities seek to further promote the adequate and effective protection of intellectual property rights on a global basis. To accomplish this goal, the Committee works with the U.S. government to ensure full implementation of not only the substantive obligations in the TRIPS agreement but also the enforcement obligations as well. The latter is assuming increasing importance as countries improve their substantive standards of protection and especially in the context of increasing global trade in information and other innovative and creative products subject to intellectual property protection. The Committee also seeks to ensure that these standards of protection and enforcement keep pace with rapid changes in technology, including establishing that right holders have the legal and technological means to control the use of their works through the Internet and other global communication media, and to prevent the unauthorized use of their works. The Committee seeks to ensure the full range of protections for patented innovations, to eliminate any discrimination against U.S. right holders by any of our trading partners, and to secure deterrent enforcement against piracy, counterfeiting, cyber squatting and other infringements through significant improvements in civil and criminal remedies and penalties. Finally, the Committee seeks to establish strong precedents in these FTAs in order to raise the level of protection and enforcement globally.

## **V. Statement as to Whether Agreement Provides for Sectoral or Functional Equity and Reciprocity**

The concept of sectoral equity and reciprocity is not relevant to the development of rules such as those in the chapter on intellectual property. The provisions on intellectual property apply equally to both Parties. IFAC-3 expects that Chile will equitably implement all of the intellectual property-related provisions of this agreement but will not hesitate to recommend U.S. action under the provisions of the dispute settlement chapter should Chile's implementation of the agreement fall short of its commitments made in this agreement.

## **VI. Advisory Committee Opinion on Agreement**

### Introduction:

The U.S.- Chile FTA builds on the standards already in force in the TRIPS agreement and the NAFTA agreement, updating these standards to take into account the wealth of experience operating under those agreements since their coming into force in 1995 and 1992, respectively. It also takes into account the many years of experience gained from bilateral engagement with countries under the Special 301 trade process under which the U.S. Trade Representative has sought to leverage both legal and enforcement reforms in countries posing particular intellectual property problems for U.S. industry and for the U.S. economy. Perhaps most important, the Agreement takes into account the significant legal and technological developments that have occurred since those agreements entered into force. For example, the Agreement incorporates all the obligations set forth in the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) which are so critical to creating the legal infrastructure for e-commerce, for the distribution and transmission of protected materials over the Internet and for products in digital format generally.

Accordingly, IFAC-3 welcomes the successful negotiation of the Chile FTA Agreement. While IFAC-3 recognizes that the negotiation of FTAs with individual countries and regions is labor-intensive, especially when compared with the negotiation of a multilateral agreement among the 144 Members of the WTO, FTA negotiations provide the most effective approach currently available to the United States for improving global intellectual property protection. The negotiation of an individual FTA provides the opportunity to deal with specific intellectual property concerns that U.S. industry may have in the particular negotiating partner. The resultant level of intellectual property protection that it contains should, however, not be viewed as setting any ceilings for the intellectual property chapters of future FTAs. Rather, our goal in the negotiation of an FTA is to set a new baseline for future FTAs, including the FTAA.

IFAC-3 views the TRIPS Agreement as reflecting minimum international norms of intellectual property protection that most countries should already have in place. The role

of the FTAs is to clarify, where necessary, those obligations and to improve upon them by enhancing the level of intellectual property protection in the negotiating partner.

IFAC-3 believes that this agreement represents significant progress toward the goals set out above. However, it unfortunately falls short of providing the same levels of protection and enforcement provided in portions of the contemporaneously-negotiated Singapore FTA. IFAC-3 supports the Chile FTA chapter on intellectual property and commends the U.S. negotiators. Furthermore, it believes that the agreement, on the whole, establishes key precedents to be included in the other FTAs now being negotiated, including the FTAA. However, it urges the Administration to examine whether any of the most serious deficiencies identified in this Report can be addressed in the agreement prior to signature. Given the significant commercial implications of alternative levels of protection and enforcement, IFAC-3 wishes to underscore the importance that it attaches to a close working relationship between IFAC-3 and industry, on the one hand, and U.S. negotiators, on the other, in the development of a model FTA intellectual property text, which would form the basis for the negotiation of these other agreements.

IFAC-3 expects that the U.S. will insist, in any future FTA negotiations with countries that have yet to implement fully their TRIPS obligations, they not only do so before the launch of the negotiations, but also, where appropriate, provide a standstill specifically with respect to the approval of generic copies of pharmaceutical products.

The following summarizes the main provisions of the intellectual property text and highlights both the provisions that we believe provide strong protection, and those, which IFAC-3 views as deficiencies.

#### General Provisions:

These provisions require accession to a number of key treaties and contain the national treatment and other general provisions governing all of Chapter XX. However, unlike in the Singapore FTA, the transition periods before requiring adherence to these key treaties are far too long. Chile is given four years to adhere to the Patent Cooperation Treaty, rather than the one-year following entry into force contained in the Singapore FTA. Chile is not required, until seven years from this year, or in 2009, to adhere to the UPOV Convention, the Trademark Law Treaty, or the Brussels Satellite Convention. No deadline whatsoever is agreed to for adherence to the Patent Law Treaty, the Hague Agreement Concerning the International Deposit of Industrial Designs, and to the Madrid Protocol. The Singapore FTA requires adherence to the latter two treaties within six months of entry into force of the Agreement.

IFAC-3 is pleased with the general breadth of the national treatment provision but is disappointed that the agreement carves back such treatment and subjects to reciprocity certain elements of protection for sound recordings and performances. This derogation goes even further than the derogation for performers unfortunately provided in the NAFTA agreement (which broadened the national treatment provision in TRIPS) and

IFAC-3 is disappointed that this further backsliding was permitted. The Singapore FTA permits no exceptions to national treatment and should be the international norm and included in other FTAs and the FTAA.<sup>2</sup> The U.S. has always supported the principle of full national treatment without exception in the intellectual property field. IFAC-3 notes that U.S. negotiators secured full national treatment without exception in the Singapore FTA, which IFAC-3 expects to be the precedent for other FTAs and the FTAA. IFAC-3 is disappointed that this same treatment was not achieved with Chile.

### Trademarks

Generally, the trademarks section includes major provisions that should assist trademark owners in protecting trademarks. Industry prefers explicit language in this section regarding trademark license recordal requirements as found in other Free Trade Agreements. IFAC-3 is concerned that some may interpret that the absence of a specific provision regarding the validity of a mark and the ability to assert rights in the absence of trademark license recordal puts these issues into question.

Article XX02.1 requires each Party to have a trademark application opposition procedure. This procedural requirement improves on TRIPS. This affords trademark owners the opportunity to take steps to stop a registration from being issued. This Article also clarifies and enhances existing TRIPS obligations prohibiting interference with the use of trademark rights in products such as pharmaceuticals that are also subject to requirements regarding the use of the generic or common name of the product.

Article XX02.4 repeats part of the TRIPS language regarding knowledge of a mark in a relevant sector of the public. In TRIPS, the language relates to well-known marks. In this Agreement, it stands alone and it is unclear whether it relates to the protection of well-known marks alone or marks in general. Industry would prefer if the context of the provision were clearer and in relation to well-known marks.

Article XX02.5 broadens protection of well-known marks, extending protection of such marks to dissimilar goods and services, whether registered or not, with the proviso that the expanded protection is based on an association between the goods/services and the owner of the well-known mark and when the interests of the trademark owner are likely to be damaged. In view of the frequency of infringements of well-known marks, the ability of well-known trademark owners to protect their marks on unregistered and dissimilar goods and services is critical to protecting these valuable assets.

Article XX02.6 heightens the level of protection for well-known marks by requiring measures to prohibit or cancel trademark registrations that are identical or similar to well-known marks if confusion, mistakes, deception or risk is involved in relation to the well-known marks.

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<sup>2</sup> IFAC-3 notes with approval the clarification in the text that the national treatment afforded extends to “any benefits derived” from the “protection and enjoyment” of intellectual property of any kind.

Article XX02.7 makes reference to WIPO's Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, but does not set out a clear obligation to give effect to the provisions of that Joint Recommendation as is required in other Free Trade Agreements. Rather, the Chile FTA states that the Parties will commit to following the principles. Industry prefers stronger language that would have required giving effect to the Joint Recommendation.

Article XX02.8 provides for administrative due process and transparency in the trademark application system and will assist trademark applicants. The provision requires a written decision regarding the grounds for refusal of a registration, an opportunity for the applicant to contest a refusal and judicial review of the administrative refusal to register.

Article XX02.9 takes a positive stride in the modernization of the application process by permitting future processing via electronic filings.

Industry prefers stronger language in Article XX02.10 regarding the adoption of the Nice classification system for trademark applications.

#### Domain Names on the Internet

The Chile FTA provides two provisions regarding domain names: Article XX03.1 requires that each Party shall provide for Uniform Domain Name Dispute Resolution Procedures for the country-code top level domains (ccTLDs) of the Parties. Article XX03.2 requires each Party to provide public access to "reliable and accurate" contact information for each domain name registrant. These provisions combine to combat the problems of copyright and trademark cyber-piracy and are welcome. IFAC-3 prefers, however, that there be a direct reference to the "Whois" database as available in the gTLDs namespace. Inclusion of this direct reference would clarify the type of information this database must contain. Reference to "Whois" is included in the Singapore FTA.

IFAC-3 wishes to underscore that the provisions regarding the establishment of Uniform Domain Name Dispute Resolution Procedures for ccTLDs in the Chile FTA address only trademark cyber-piracy, and not other alleged abuses such as the use in domain names of geographic terms. IFAC-3 commends the fact that challenges based upon the use of geographic terms as, or as part of, a domain name are not included.

#### Geographical Indications

The Chile FTA text provides a clear framework for the procedures involved in the registration of geographical indications and establishes the proper relationship between geographical indications and trademarks. Consequently, the Chile FTA text on

geographical indications, coupled with the language set forth in Article XX02.2 of the trademark section of the Chile text, should be the model for all future FTAs.

The Chile FTA text has a more extensive provision on geographical indications than does the Singapore text. As such, it builds upon and clarifies that language. Like the Singapore FTA, the Chile FTA text includes a provision (article XX02.2 of the trademark section) that requires that the owner of a registered trademark must have the right to prevent the use, in the course of trade by third parties, of confusingly similar signs, including geographical indications. The Chile FTA text then improves upon this language by also including a specific provision which would prohibit the registration of a geographical indication that is confusingly similar to a previously used, applied for or registered trademark, thereby unequivocally protecting prior trademarks against later geographical indications. This is consistent with U.S. law and policy on the subject of the relationship of geographical indications and trademarks and is also consistent with the TRIPS agreement. To the extent that it lends clarity to the issue, it is a welcome addition.

One member of the Committee is concerned that the comprehensive provisions regarding geographical indications in general and the relationship between geographical indications and trademarks plow new ground and thus raise a number of questions for distilled spirits producers, in particular, as to how these provisions will be applied in practice both in the United States and in Chile. The adoption of the principle of exclusivity with respect to the term "Bourbon," for example, may require changes in U.S. labeling requirements and trademark practice; the extent and implications of these changes are not yet known. These concerns are mitigated somewhat by the inclusion elsewhere in the agreement of a provision recognizing Bourbon and Tennessee Whiskey as distinctive products of the United States.

Other members of the Committee concerned about this relationship, however, feel that the language involving exclusivity of trademarks is not problematic. The language contained in the Chile FTA granting trademark registrants the right to prevent third parties from using confusingly similar signs is nearly identical<sup>3</sup> to the language contained in the TRIPS agreement (Article 16.1). Given that the language of TRIPS Article 16.1 has not given rise to problems thus far, it is unlikely that this Chile language will either. In fact, it is not likely that a change in U.S. law would be required at all to implement this paragraph given the fact that nearly identical language is contained in TRIPS.

IFAC-3 also supports the Chile FTA text because it requires a very systematic and fair opportunity to object to the protection of geographical indications. One of the major problems with the protection of geographical indications is the lack of a clear mechanism

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<sup>3</sup> While Article XX02.2 of the Chile FTA specifically includes "geographical indications" as signs, this is merely clarifying language. These members believe it is well understood, not only in the TRIPS agreement but also within this Agreement, that "signs" would in fact include geographical indications, regardless of whether or not the text included the clarifying language regarding geographical indications.



to determine whether a geographical indication should be granted protection. The Chile FTA provides clear language requiring such a mechanism.

Finally, the text broadens the definition of a geographical indication to allow for the protection of geographic indicia other than the actual names of geographic places (such as the outline of a state). This provides the opportunity to protect geographic indicia as geographical indications, which will benefit those organizations that seek such protection. Provided that the above-mentioned relationship between trademarks and geographical indications remains clear, the broadened definition for geographical indications is likewise welcome.

### Copyright and Related Rights and Protection of Certain Satellite Signals

The United States is the world's largest producer and exporter of copyrighted materials and at the same time loses more revenue from piracy and other inadequate copyright protection than any other country in the world. High levels of copyright protection and effective enforcement mean more revenue and more higher-paying jobs benefiting all Americans. The copyright industries account for over 5% of U.S. GDP and have employed new workers at over three times the rate of the economy as a whole over the last 25 years.

Industry's goal for the Chile (and Singapore) FTA intellectual property negotiations was to achieve a level of protection that in some areas improved on the standards in TRIPS and NAFTA and, in others, clarified provisions in those agreements. In addition, it was critical to achieve Chile's agreement to fully implement the provisions of the WCT and WPPT (which Chile has ratified and which became binding between the two countries, effective March 6 and May 20, 2002, respectively), along the same lines as the U.S. had in the DMCA in 1998. Finally, industry and the U.S. negotiators sought to clarify and build upon provisions of the TRIPS enforcement text in light of the U.S. copyright industries' wide experience with copyright enforcement globally. This objective was, in almost all instances, achieved.

The first improvement over prior agreements was to ensure that the level of protection in Chile and in many other countries for record producers and performers, relegated to second-class citizenship under "related" or "neighboring" rights regimes, moved much closer to the protection afforded other subject matter receiving Berne Convention levels of protection. While the Singapore FTA combines authors' and related rights in one section, the Chilean negotiators insisted on maintaining this distinction. Nevertheless, the legal effect in the Chile FTA text is the same as in the Singapore text, although industry strongly prefers the formulation in the Singapore FTA text. With digitization of all works and their transmission over the Internet becoming more important daily, the continued treatment of sound recordings in a manner different from other protected works no longer can be justified. While, to some extent, the text of this agreement continues to preserve this artificial distinction between copyright and "related" rights, the difference in

levels of protection among these works has been minimized, though even more harmonization would be highly desirable.

While the text repeats some obligations already contained in the TRIPS agreement without change, other language has been clarified, particularly in the enforcement text. The Chile FTA text does, however, contain detailed provisions that require implementation of the new obligations provided in the WCT and WPPT, to which both Parties to the agreement are now members. These include:

- Clear language assuring that temporary and transient copies (such as those made in the RAM of a computer) are nevertheless copies and fully subject to the reproduction right. This treatment is critical in a digital, networked world in which copyrighted material can be fully exploited without a permanent copy ever being made by the user (Articles XX05.1 and XX06.1);
- The right to control any manner of transmitting works, including interactive transmissions over electronic networks like the Internet, with only minor exceptions for analog performances and broadcasts of sound recordings and performances recognized in U.S. law (Article XX05.2 and XX06.5(a) and (b));
- The requirement that Chile implement protection for technological protection measures (TPMs) used by right holders to protect against unauthorized access and exploitation of their works in virtually the same manner as did the U.S. in the DMCA in 1998. In addition, the text provides for a list of narrowly crafted exceptions – in close consistency with how the U.S. Congress approved those exceptions in U.S. law. However, there are certain provisions in this Article XX07.5 that cause some concern:
  - a. The prohibition against trafficking in circumvention devices omits reference to situations where the offender “offers” to distribute such devices. This is a feature of U.S. law and its omission here is a deficiency.
  - b. While the exceptions to the prohibition against circumvention are in general narrowly crafted and follow the U.S. model, some key conditions for benefiting from those exceptions are omitted. In Article XX07.5(d)(ii) and(iii) concerning the exception allowing reverse engineering of software to achieve interoperability and to allow encryption research—both in very circumscribed situations—the text omits the key condition that if the particular element of the computer program is already readily available, the exception to circumvent is not allowed. In addition, the requirements that the person engaged in the encryption research be “appropriately qualified” and first have “made a good faith effort to obtain authorization for such activities” are also both omitted. These omissions open dangerous loopholes in protection, particularly since both exceptions permit the trafficking in circumvention devices, risking that those devices (or services) might be made available publicly for illegal and wide use by millions.

- Full implementation of the WCT and WPPT provisions on prohibiting the removal or alteration of electronic rights management information along the lines set out in the DMCA (Article XX07.6);
- The implementation of those specific provisions of the WPPT that seek to harmonize the rights afforded sound recordings with most of those rights afforded all other protected works. (Article XX07.1-4);
- A repetition of the three-step test for circumscribing the scope of exceptions to copyright protection found in the TRIPS agreement and the WCT and WPPT. IFAC-3 objects, however, to the footnote to this Article (Article XX07.3) which sets out a dangerous exception to the all-important reproduction right, an exception that could have serious consequences for right holders doing business on the Internet. This exception language introduces two concepts that would be entirely new, and unknown in U.S. copyright law and jurisprudence, by stating that whether a reproduction has occurred is contingent on a “duration” test and an “economic” test. The Congress last considered the issue of temporary reproductions in 1998 in enacting the changes to Section 117 of the U.S. Copyright Act (17 USC §117), and declined to add either a duration or an economic test. The key “safeguard terms” of the language are undefined and untested. These terms include: “transient,” “incidental,” “integral and essential part of a technological process,” and “no independent economic significance.” Depending on how these terms are defined, serious problems could ensue. It is our understanding that Chile did not articulate any specific purpose for including this language, other than the negotiators felt they needed some qualification of the temporary reproduction right beyond the Berne/TRIPS/WCT/WPPT three-step test. Moreover, this illustrative example in the footnote is a virtually verbatim transposition of European Union law, specifically Article 5.1 of the EU Copyright Directive, and it is inconsistent with U.S. law and jurisprudence. It would establish a very troubling precedent. Its inclusion creates a number of serious problems with respect to the copyright industries’ alarming unauthorized P2P piracy, and its implications for now evolving e-business models, which rely on being able to assert temporary reproduction as a right covered by copyright. Finally, the exception language of the Directive, from which this language is taken, does not apply to computer programs. The language of the Chile FTA would so apply. Thus, the FTA even goes beyond the Directive in this critical respect, and must not do so.

Other key provisions (and omissions and deficiencies) clarifying, or in some cases going beyond, the existing TRIPS obligations include:

- In a major advance, Chile has agreed to extend its term of protection closer to that pertaining in the U.S.—to life of the author plus 70 years for most works. While industry sought to have the term of protection for sound recordings and audiovisual works extended from 50 years from publication to the U.S. law’s 95 years, a compromise was struck at 70 years. We urge that future agreements move that level to the full 95 years (Article XX05.5 and 06.7);

- The text includes a provision (Article XX07.1) that makes clear that there is no hierarchy of rights between those of authors and those of record producers. This is a welcome clarification of dangerous provisions in current Chilean law and sets a good precedent with other Latin countries and in the FTAA;
- The language that appears in the Singapore FTA ensuring that Chile cannot subject retransmission of television signals to a compulsory license disappointingly does not appear in this agreement. This is a deficiency;
- Unfortunately, the text does not contain a provision which follows U.S. law (17 USC §602) providing for the right of a copyright owner to prevent parallel imports of its products manufactured outside Chile that are not intended for distribution in that country. The failure to obtain such important protection is a deficiency in the copyright text;
- The text incorporates the important “contractual rights” provisions of the NAFTA agreement ensuring that Chile will give effect to transfers of rights and the treatment of monetary benefits resulting from such transfers that are contained in U.S. contracts. The NAFTA provision was intended to safeguard the freedom of contract and to ensure that a country may not pass laws that undermine the intent of the parties to such contracts. This agreement adds exception language to the NAFTA text, however, which if interpreted incorrectly, could undermine this important provision. That added provision provides that Chile is permitted to adopt measures that are inconsistent with those contracts if they “protect the interests of the original right holders, taking into account the legitimate interests of the transferees.” Such measures, if enacted in Chile, could be directly contrary to the intent of the parties to a U.S. contract and eviscerate the contractual rights provision. IFAC-3 views this as a deficiency. (Article XX07.2(d));
- The text contains an all-important requirement that the two governments issue decrees or other similar orders mandating use of legal software by government agencies. The U.S. has already issued such an Executive Order and it is critical for all governments, Chile included, to ensure that their software use is fully licensed and that effective software management systems are established (Article XX07.4);
- Finally, the substantive text adds provisions, based upon a similar provision in the NAFTA, protecting against the theft of encrypted satellite signals and the manufacture of and trafficking in tools to steal those signals. However, rather than subjecting prohibited conduct to both civil and criminal liability as in the NAFTA text and in the Singapore FTA, this provision permits Chile to subject covered satellite signal theft to either civil or criminal liability. It is also drafted in a manner that the right holder or person holding an interest in the encrypted signal must prove that the act was done willfully to even subject the offender to civil liability. These are both deficiencies (Article XX08).

With the exceptions noted, the substantive copyright text achieves all that U.S. industry sought in this negotiation and the negotiators are to be commended in achieving this most important result.

## Patents

IFAC-3 notes that strong and effective patent regimes provide a legal framework for the protection of ideas. As a general rule, the level of patent protection found in the industrial countries, and especially the level of patent protection found in the United States, provides an appropriate level of incentives for innovation. IFAC-3 believes that it should be the U.S. objective in the FTA negotiations to ensure that our negotiating partners adopt a level of patent protection comparable to that found in the United States. It is in light of these objectives that IFAC-3 provides its comments on the provisions relating to patents and to measures related to certain regulated products that are contained in the recently completed FTA with Chile.

Under the TRIPS Agreement, Chile was required to have implemented TRIPS-consistent standards for patent and other intellectual property no later than January 1, 2000. To date, it has not done so. IFAC-3 wishes to underscore its disappointment that U.S. negotiators had not insisted that the Government of Chile implement its TRIPS obligations before the launch of the FTA negotiations. In addition, IFAC-3 believes that USTR should take steps to address the decision of the Chilean Government during the period of the negotiations on the FTA to accelerate approvals of copies of products that were supposed to have been granted patent and data protection. These copies remain on the market to this day. In other words, Chile should not be allowed to capitalize on its failure to implement its TRIPS obligations properly and in a timely manner.

IFAC-3, accordingly, calls on U.S. negotiators to insist that Chile not approve copies of products based on approved pioneer drugs that should have been granted market exclusivity under the TRIPS Agreement. In particular, Chile should agree not to approve any additional generic copies of originator products until Chile implements the provisions of both the TRIPS Agreement and the FTA in its national law. To provide partial redress for the harm already caused to U.S. industry, Chile should agree to suspend marketing approval for those already-approved products that correspond to products that were to be granted protection until the expiration of the period of exclusivity and to remove those infringing products already on the market from the stream of commerce.

The patent section of the Chile FTA provides a number of clarifications and improvements to the protection standards articulated in the TRIPS Agreement. Once implemented, these standards will improve the effectiveness of patent protection in Chile. These additional protections are welcome but fall short of the additional elements contained in the patent section of the Singapore FTA and other FTAs.

Chile's commitment, in Article XX01.1, to accede to the WIPO Patent Cooperation Agreement (1984) will reduce the costs of gaining patent protection in Chile through the filing of a single patent application under the PCT. Adherence of Chile to the PCT will provide numerous administrative benefits for U.S. patent holders. For example, it will allow U.S. patent holders to use the 30 month period following an initial filing in the U.S. or in the European Patent Office before further action and fees are required in Chile. It

will also allow patent holders to avoid complications from unique application requirements—most PCT members accept a PCT-formatted and compliant application without additional formal requirements. Given the economic benefits that countries will gain from adherence to the PCT, IFAC-3 urges U.S. negotiators to insist that future FTAs require countries to accede to the PCT within twelve months of the agreement's entry into force, not within the four years provided in this text. IFAC-3 also urges the U.S. Government to advocate accession of the PCT prior to the deadline of the Chilean FTA, given its obvious benefits for both the Government of Chile and individual patent applicants.

IFAC-3 recognizes the significance of Chile's commitment to undertake reasonable efforts, through a transparent and participatory process, to propose legislation within - four years from the entry into force of the FTA that will make available patent protection for transgenic plants that are new, involve an inventive step and are capable of industrial application (Article XX09.1). Nevertheless, while Chile's commitment to limit the application of the biotechnology exclusion currently found in TRIPS Article 27.3(b) is welcome, IFAC-3 is disappointed that the FTA does not explicitly require Chile to implement patent protection for transgenic animals. IFAC-3 notes that the United States provides for the patenting of animals that are new, involve an inventive step and are capable of industrial application and that the Singapore FTA requires the patenting of both transgenic plants and animals. IFAC-3 also urges the U.S. government to ensure that the commitment made by Chile results in reforms to the Chilean patent system as soon as possible.

The Chile FTA places restrictions, in Article XX09.3, on how a third party may use a patented invention to generate data needed for the marketing approval of generic pharmaceutical products (so-called Bolar-type use) by limiting its use specifically for purposes related to meeting the marketing approval requirements, and if export of the generic pharmaceutical product is permitted, the product shall only be exported outside the territory of the Party for purposes of meeting marketing approval requirements. In view of the corresponding obligation to extend the term of a patent to compensate for lost effective patent term due to the regulatory approval of a new drug, these restrictions generally reflect U.S. law and practice.

The Chile FTA restricts, in Article XX09.4, the grounds for the revocation of a patent to those limited to the patentability of the invention or due to fraud in the procurement of the patent. IFAC-3 encourages the U.S. government to work with the Government of Chile in the implementation of this provision to ensure that it is consistent with the U.S. practice. For example, the possibility of preventing enforcement of a patent due to actions that are found to constitute inequitable conduct should be limited to acts that are material to the patentability of the invention.

The Chile FTA does not prohibit third party opposition to the grant of patents prior to the issuance of the patent; such a prohibition is included in the Singapore FTA. IFAC-3 encourages the U.S. government to continue to work with the Government of Chile to

improve the administration of its patent system, and pursuant to such efforts, to advocate the elimination of pre-grant opposition opportunities.

The Chile FTA recognizes, in Article XX09.6, the delays that patent owners face in the issuance of their patents by the patent office and requires patent term adjustments to compensate for these delays.

The FTA requires (in Article XX09.7) Chile to treat public disclosures of an invention that occur within 12 months prior to the filing date of the application in Chile to be non-patent defeating. The formulation requires the pre-filing disclosure of the invention to have emanated in some form from the patent application, which is a slightly narrower authority than U.S. law.

While IFAC-3 welcomes the above-mentioned FTA patent provisions, it also notes that the Chile FTA fails to include a number of additional patent protections that are contained in the Singapore FTA. These include:

- The absence of an explicit obligation concerning the making available of patents on all forms of new, non-obvious and useful inventions;
- Explicit restrictions on a country's authority to grant compulsory licenses to situations that are needed to remedy anti-trust violations; national emergencies or other circumstances of extreme urgency; and to govern situations of public non-commercial use;
- Requiring each country to provide effective legal means to enable a patent owner to prevent the unauthorized importation of goods put on another market by it or its agent. The Singapore FTA ensures that a patent owner can prevent the international exhaustion of patent rights via a right of action to enforce contractual provisions that are violated outside the territory of Singapore;
- As already mentioned above, providing a ban on pre-grant opposition.

IFAC-3 believes that it is critical that future FTAs include, at a minimum, the additional patent protections found in the Singapore FTA.

#### Measures Related to Certain Regulated Products

The provisions of the Chile FTA clarify the obligations contained in the TRIPS Article 39.3 with respect to data exclusivity and provide for additional protection with respect to pharmaceutical products subject to a patent.

To give effect to the data exclusivity obligations of Article 39.3 of TRIPS, the Chile FTA imposes, in Article XX10.1, an obligation of "non-reliance" on either the pioneer approval or the pioneer data package itself for a period of at least five years from the date of approval for a pharmaceutical product and ten years from the date of approval for an agricultural chemical product. While this provision on data exclusivity does not impose

any additional obligations beyond those contained in TRIPS Article 39.3, it does serve to clarify the intent of the negotiators of the TRIPS Agreement.

The Chile FTA also imposes a second set of obligations (Article XX10.2) that prohibit generic drug approvals during the term of the patent covering the pharmaceutical product (i.e., “linkage”); and provides patent term restoration for the unreasonable curtailment of the patent term as a result of the marketing approval process and for the mandatory disclosure of the identity of the generic applicant that seeks marketing approval during the patent term.

IFAC-3 welcomes these provisions of the Chile FTA. It, however, notes that the Singapore FTA provides an additional obligation by explicitly restricting parties from terminating the data protection period with the expiration of the underlying patent. In addition, IFAC-3 notes that the Singapore FTA explicitly provides protection in cases where regulatory approval is conditioned on a drug approval in another market. While IFAC-3 notes that the Chile FTA covers such cases, having an explicit protection in future FTAs would ensure a fair return on investment to the originator of the information, which is based on data that may take ten or more years to develop at an average cost of \$800 million.

### Enforcement

IFAC-3 wishes to underline the importance that it attaches to the effective enforcement of the fully panoply of intellectual property rights afforded in this agreement, which build upon the existing enforcement obligations in the TRIPS agreement. The updated levels of protection afforded in this agreement will be of little value to U.S. companies without the capability and willingness of the Chilean government – any government for that matter – to enforce those standards, particularly against commercial piracy and counterfeiting (and other infringements) that cause such a drain on the U.S. and Chilean economy and other economies in question.

Today, seven years after the WTO TRIPS agreement, and its enforcement obligations, became effective in the developed world and three years after they became effective in the developing world, the U.S. companies and industries benefiting from this agreement continue to suffer billions of dollars in losses due to global piracy, counterfeiting and other infringements of the rights provided in TRIPS and in this agreement – primarily due to ineffective enforcement by our trading partners. While, for the most part, the substantive provisions of the TRIPS agreement have been implemented in these countries, it is crystal clear that the enforcement obligations are not being met by many countries. The continued development and importance of new technologies, such as the Internet, and the accompanying greater ease with which piracy and counterfeiting can be accomplished, have made this situation even more acute. In addition, the alarming increase in the international trade in counterfeit pharmaceutical products is raising public health concerns, especially in developing and least developed countries. It was the objective of the U.S. government, of IFAC-3 and of the entire U.S. intellectual property



community to use the opportunity offered by the FTA process (the Doha Round in the WTO will not be considering changes in the TRIPS enforcement text) to use our enforcement experience over this period to improve and strengthen these enforcement obligations, with the goal of having them adopted on a global basis.

IFAC-3 notes that this task was particularly challenging since governments, including our own government, are most reluctant to bind themselves to specific performance standards in the area of enforcement. But it is precisely the day-to-day operation of the enforcement system and its ability to “deter further infringements” (the TRIPS standard) which will bring back to the U.S. and to other countries the billions of dollars lost globally to rampant piracy and counterfeiting, including counterfeiting of pharmaceutical products.

This agreement makes some significant advances toward this goal, but again the proof will lie in the implementation of these new standards on the ground in the country, by police, prosecutors, judges and administrative agencies responsible for enforcement and implementation of intellectual property rights.

Some of these advances (clarifying or building upon existing TRIPS standards) and some areas where needed improvements were not achieved include:

#### General Obligations

- These general provisions clarify and expand, for the most part, existing TRIPS obligations;
- Article XX11.1 clarifies an existing TRIPS obligation, that decisions by a country on how to distribute enforcement resources among different areas, including intellectual property enforcement, does not excuse a country from meeting its “deterrence” and related obligations under the agreement;
- Article XX11.3 requires both parties to publicize their enforcement efforts including making available enforcement statistics each country might keep. This permits industry to evaluate performance and educate the public about the importance of intellectual property rights, and the risks attendant upon their infringement. Industry prefers that the FTA include an obligation to keep comprehensive statistics;
- Article XX11.5 is a significant advance for the copyright industries. This provision lays out detailed presumptions that must be implemented in national law concerning the subsistence and ownership of copyright in all protected subject matter. Proving these preliminary issues in court, without the benefit of presumptions, makes enforcement difficult, expensive and causes long and unnecessary delays, all to the detriment of expeditious and effective enforcement against the run-of-the-mill piracy and counterfeiting that causes most losses globally. Article XX11.5(b), however, appears to limit the presumption of subsistence of copyright only to works that bear a publication date not more than 70 years prior to the date of the alleged infringement, thus

omitting many protected works from the benefit of the presumption (e.g. all works protected for the life of the author plus 70 years where the author has published the work more than 70 years ago but died after that date). This is a deficiency not present, for example, in the analogous provision of the Singapore FTA.

#### Civil and Administrative Procedures and Remedies

- Article XX11.7 clarifies and expands upon TRIPS obligations, making clear that civil damages, at least in the area of copyright and trademark piracy and counterfeiting, must actually compensate the right holder for the damages suffered, including payment of the infringer's profits. Most important, it requires the courts to "consider" the suggested retail price of the legitimate product being infringed upon as a measure of the loss to the right holder. Industry prefers that that damages "be based upon" this measure;
- Article XX11.8, establishes a mandatory system of statutory (or "pre-established") damages, only an optional remedy in the TRIPS agreement. The difficulty of proving "actual" damages in a piracy or counterfeiting case is well known; the U.S. has long had a statutory damages regime. It is a major goal of industry to see an effective statutory damages regime established in every country. The text is not as strong as that in the Singapore FTA, however, in that it does not require that such damages be "sufficiently high to constitute a deterrent to further infringements" (as appears in the Singapore text), but only that the level of damages be "reasonable in light of the goals of the intellectual property system and the objectives set forth in this Chapter." It is a reference to the deterrence standard that is one of the key elements of an effective enforcement system;
- Articles XX11.10-12 elaborate on, and unfortunately do not make mandatory in every case, many discretionary remedies from the TRIPS agreement, including: payment of reasonable attorney's fees to the prevailing party (mandatory); making clear the right of judicial authorities to order the seizure of all suspected infringing goods, implements, other materials and documents used in the commission of the infringement; permitting the court to order the destruction of infringing goods "at its discretion" and also permits their donation to charity but only if the rightholder so authorizes or such act would not violate the TRIPS three-step test. The article also does not, unfortunately, mandate the destruction of implements used in the commission of an infringement, but does recognize that the removal of a trademark from infringing goods will never be sufficient to permit their release back into commerce, though the donation of goods to charity is permitted, thereby risking their return to normal channels of commerce. Finally, the Article mandates that courts have the authority to order the infringer to identify other accomplices, suppliers and other third parties involved in the infringement at the risk of fines or imprisonment for failure to do so. The latter is particularly

critical given the role that organized crime plays in today's piracy and counterfeiting.

#### Provisional Measures

- Article XX11.14 reflects the TRIPS requirement for *ex parte* provisional relief in civil cases and requires that such orders be issued "expeditiously." Quick *ex parte* search orders are critical to meaningful civil enforcement against infringements. Industry prefers that this provision contain a more precise guideline for the time period for a search order request to be acted upon or denied;
- Article XX11.15 again builds upon TRIPS by providing that any security required of the plaintiff be "reasonable" and not "deter" recourse to these procedures (experience in many countries is that the right to require bonds and security has been abused); and adds that, if expert witnesses are required by the court and must be paid for by the right holder, the charges be related to the work performed, or, where applicable, be based on standardized fees, and not deter recourse to such relief. This seeks to remedy abuses found in many countries.

#### Special Requirements Related to Border Measures

- Article XX11.16 permits the competent authorities to require information from right holders seeking border measures. Industry prefers additional language referring to requests for information that can reasonably be expected to be in the right holder's possession. The current text tracks TRIPS, which unfortunately has been implemented in ways that demand information that cannot reasonably be expected to be known or accessible to right holders;
- Article XX11.18 requires that the competent authorities have the power to order the infringers to provide the right holder with information regarding the consignee, consignor and importer of infringing goods. IFAC-3 welcomes this change and notes that TRIPS does not require that the competent authorities have this power;
- Article XX11.19 streamlines the border enforcement measures and clarifies and improves border enforcement powers found in the TRIPS agreement. First, the Parties must provide for enforcement at the border without any formal complaint filing requirements. Second, the competent authorities must have the authority to initiate actions *ex officio* relating to suspect shipments being imported, exported or moving in-transit;
- Article XX11.20 outlines the treatment and disposition of pirate and counterfeit goods found by the authorities at the border. Unlike TRIPS, this agreement outlines these measures and indicates that counterfeit and pirate goods shall be destroyed except in exceptional circumstances. It strengthens the disposition requirements for trademark counterfeit goods, clearly indicating that the simple removal of unlawfully affixed trademarks is not

sufficient to permit release into channels of commerce and that, in no event, shall authorities permit export of counterfeit or pirated goods.

### Criminal Procedures and Remedies

- Article XX11.21 again builds on the TRIPS provisions in this area (for the copyright and trademark industries, criminal remedies and effective border measures are key to reducing losses globally);
- The critical concept of piracy or counterfeiting “on a commercial scale” is clarified to clearly include infringing acts without a profit-motive or commercial purpose but which cause damage “on a commercial scale” – the proper reading of this term in TRIPS. Thus, even where the poster was not charging the downloader/viewer/listener, posting software, movies, music or other valuable works on the Internet for download or viewing/listening causes great damage to those right holders and should be covered. The text in Article XX11.21(a) includes this concept (as does the NET Act in the U.S.) and specifically refers to infringement by “electronic means.” Industry prefers to have more precision than is carried by the words “significant aggregate monetary value” in this no-profit motive situation, so it will be important to ensure that the threshold adopted by Chile is low. In addition, this formulation clarifies what is already a TRIPS requirement that making unauthorized copies of software in a corporate context must also be subject to criminal remedies since it is on a “commercial scale;”
- Article XX11.21(b) seeks to reach one of the most serious problem for right holders globally – the failure of judges or other enforcement authorities to actually impose penalties at a level that effectively deters further infringements. The text is more specific with respect to the remedies that must be available but the language on actual imposition of penalties is not limited to Executive “encouragement” that deterrent fines be imposed (as in the Singapore FTA); it provides that the penalties in the law be “applied by the judicial authorities in light of, inter alia, these criteria” (i.e., deterrence and “a level of punishment consistent with the gravity of the offense”). Industry prefers much stronger language in this area and, in particular, prefers to see countries adopt sentencing guidelines that are tailored to ensure deterrence;
- Article XX11.21(c) deals with the endemic problem of the seizure by authorities of only product and implements named in a search order even though other clearly infringing products are at the search site. The language agreed upon is still somewhat limited and requires seizure of all product within the “general categories” in the search order. Search orders in many countries are written too narrowly and it is still not clear whether this provision would require seizure of pirate videogames, music, software or books found in a search requested by the movie industry looking for pirate DVDs, videos etc. The provision also requires the seizure of implements used in committing the offense, but only where they “constitute evidence of the offense.” IFAC-3 fears that this could turn into a significant loophole;

- Article XX11.21(d) expands on TRIPS and requires destruction of counterfeit and pirated goods, except in exceptional cases, and with respect to copyright piracy, any implements or other materials used in accomplishing the infringement, including assets traceable to the infringing activity. However, in view of the magnitude of product counterfeiting, industry prefers that the destruction of materials and implements be extended to those used for production of counterfeit trademarked products. In addition, the text provides language that could be interpreted to provide for compensation to the infringer in exceptional circumstances when materials or implements are forfeited or destroyed. IFAC-3 does not favor compensation to infringers when criminal piracy and counterfeiting is conducted and when the materials and implements are forfeited or destroyed;
- Article XX11.21(e) requires the appropriate authorities to act *ex officio* against piracy and counterfeiting. Many countries require a right holder to submit a formal complaint. This requirement is a major enforcement impediment and should be eliminated on a global basis. All countries should recognize that piracy and counterfeiting are “public” crimes. It is hoped that this provision will be read to be an explicit mandate for criminal authorities to so act.

#### Limitations on Liability of Service Providers

- Article XX11.22 governs the key issue of the liability of, and limitations on the liability of, service providers that are involved in the hosting and transmission of infringing material over their facilities. The result of the negotiation was an excellent set of provisions that track very closely the concepts and provisions embodied in U.S. law as found in Section 512 of the DMCA. We commend the negotiators for this result and believe that it must be replicated in other FTAs, if U.S. protected material is to find its way safely into global e-commerce to the great benefit of the U.S. economy and to U.S. jobs. The only concern is to ensure that in implementing the “limitations” on liability provided in the agreement, Chile also ensures that it fully implements the obligation to have in place a system of liability of ISPs in the first place. Having in place a system of liability of ISPs is the key to ensuring the cooperation that is essential to making the Internet safe for the transmission of protected copyright products. The temporary copy exception example discussed above, which IFAC-3 believes is a serious deficiency, relates directly to this issue.

#### Transitional Provisions

The unnecessarily long transition periods (Article XX12) are one of the principal deficiencies of this otherwise strong agreement. IFAC-3 finds it hard to understand why:

- Chile should have four years from entry into force (thus even longer than four years) to implement the enforcement text of this agreement when it is already bound by the TRIPS enforcement text and there are no major complications to implementing these minor modifications and clarifications;
- Chile should have two years from entry into force to implement the temporary copy clarifications in the text, when providing an exclusive right to reproduce copies, “in any manner or form” is already required by the Berne Convention, the TRIPS Agreement and the WCT and WPPT, all of which Chile is a member;
- Chile should have four years to implement the right of communication to the public for record producers and performers. This would include the critical right of these right holders to control the interactive transmission of their works over electronic networks like the Internet. This is even more inexplicable, given that Chile already has this obligation through its adherence to the WPPT;
- Chile should have an, also inexplicable, five years to implement its existing international obligations (and obligations to the U.S.) to protect against circumvention of technological protection measures – one of the most important obligations of the WIPO Treaties and critical to the future of e-commerce;
- Chile has two years to implement the patent, trademark and geographical indications obligations of this agreement. Singapore committed to implement such obligations within six months of entry into force.

IFAC-3 believes that these transition periods are too long, unnecessary and must not be permitted to set a precedent for agreements with other countries.

## **VII. Membership of the IFAC-3 Committee**

Eric H. Smith  
 President  
 International Intellectual Property  
 Alliance  
 Chairman

Jacques J. Gorlin  
 President  
 The Gorlin Group  
 Vice-Chairman

Hope H. Camp  
 Law Offices of Hope H. Camp  
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Morton David Goldberg  
 Cowan, Leibowitz & Latman, P.C.

Frank Z. Hellwig  
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Dr. Joseph A. Imler  
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