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August 20, 1985

Mr. J.M. Weekes

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INTELLECTUAL PROPERTY IN THE CONTEXT OF BILATERAL NEGOCIATIONS

Strategic Policy Research Branch
Consumer and Corporate Affairs Canada

August 20, 1985

INTRODUCTION

It is clear that the U.S. increasingly believes that its economic interests are being adversely effected by the lower level of intellectual property protection in a number of other countries, including Canada. Accordingly, the U.S. is seeking to raise intellectual property issues in settings where this topic would not, ordinarily, have been discussed in the past. The upcoming new round of GATT is one such setting. In the present context, however, the Quebec Summit is the most relevant example.

The Quebec Declaration regarding trade in goods and services pledged the two countries to "cooperation to protect intellectual property rights from trade in counterfeit goods and other abuses of copyright and patent law". Further, the Prime Minister "undertook best efforts to accommodate U.S. concerns on the protection of programming retransmitted by cable or satellite when the Government develops legislative proposals (on copyright)".

The purpose of this paper is to provide background information and preliminary assessments regarding intellectual property issues which are relevant to the possible upcoming Canada/U.S. bilateral trade negotiations. From the

above discussion, it can be seen that intellectual property is a subject for discussion in these negotiations primarily at the request of the Americans.

Inclusion of intellectual property on the agenda could be potentially difficult from the Canadian viewpoint given that the U.S. will be applying pressure on issues which they see as irritants in bilateral relations. Many of these same issues are, however, already highly charged and polarized in terms of domestic policy formulation.

While the overall U.S. objective (i.e. encouraging Canada to provide stronger intellectual property protection) is evident, the specific issues which the Americans may raise are far from obvious. In attempting to shed light on this matter, as well as the question of how Canada should respond, this paper commences with an examination of the links between intellectual property and trade. Subsequently, an overview of the issues which might be raised in initial negotiations is provided and the tactical considerations are discussed. Finally, some discussion is provided of the changes in intellectual property law which would be required in both countries if the final outcome of these negotiations is a reasonably comprehensive level of economic integration.

THE LINKS BETWEEN INTERNATIONAL TRADE AND INTELLECTUAL PROPERTY

Intellectual Property legislation grants rights to creators in order to increase the incentives for creativity. The three major types of intellectual property are patents, copyrights and trademarks; each of which has its own unique characteristics.

While laws vary from country to country, generalizations regarding these characteristics can be made. Patents generally protect new and useful inventions for a limited term (e.g. 17 years in Canada). Copyright generally protects the the expression of original literary, artistic and musical works for a much longer period of time (e.g. life of the author plus 50 years for most works in Canada). Finally, trademarks typically involve the granting of rights to the use of a distinctive name or symbol for an indefinitely long period of time (e.g. periodic renewal is required in Canada).

Individual national laws governing intellectual property are tied together by a number of international conventions. The central feature of all such conventions is "national treatment" by which Canada is required to treat

foreign creators and domestic creators the same in the formulation and administration of legislation. In return, Canadian creators receive national treatment in all nations which are signatory to the respective conventions. By virtue of national treatment, each nation is faced with the prospect of granting exclusive rights to foreign creators in domestic markets. Each nation also receives the benefit of having exclusive rights conferred on its creators in foreign markets. The main international agreement with respect to patents and trademarks is the Paris Convention and the corresponding agreements covering copyright are the Universal Copyright Convention (UCC) and the Berne Convention.

At this point, it should be noted that there is no necessary link between intellectual property protection and trade in goods and services. The grant of an intellectual property right in Canada only means that some financial benefit will flow back to the rights holder. That benefit can flow back by way of profits on goods and services produced by the rights holder. Equally, however, the benefits can take the form of royalties or intra-corporate transfers resulting from production in some third country. A few examples may serve to clarify the points.

Under the present Patent Act, the Commissioner of Patents is required to grant compulsory licences to import pharmaceuticals. The main source for such imports has been Italy because, until recently, Italy did not grant protection for pharmaceuticals. Assume now that Canada introduces full protection for pharmaceuticals. Italy would be cut off as a source of inputs, but there is no guarantee that Italian production would be replaced by production in the U.S. or Canada. Rather, imports from Italy would likely be replaced by imports from Ireland, Israel and other countries which have very favourable tax regimes. Canadian trade with these countries would be affected rather than Canadian trade with the U.S. In terms of U.S. interests, however, U.S. head offices would receive increased payments from their subsidiaries located in Ireland, Israel, and other such countries.

The basic point is that the grant of new intellectual property rights in Canada will not necessarily change trade between the U.S. and Canada. Some of the technologies for which the U.S is now seeking protection are indeed produced in the U.S. and imported into Canada (for example, semiconductor chips). This trade is, however, already taking place in the absence of protection. There is little reason to believe that the U.S., in general, would be significantly

more likely to be the source of production of a product which is protected by Canadian intellectual property law than of a similar product which is not eligible for protection. In the case of protection, however, the American rights owner is guaranteed some remuneration for use of his creation. That remuneration can result from production in the U.S. but equally could take the form of royalties or intra-corporate transfers resulting fromproduction outside the U.S.

Increased intellectual property protection in Canada, therefore, will not necessarily result in guaranteed remuneration (and, in selected instances, enhanced remuneration) for rights holders. The U.S. interest in these negotiations stems from the fact that U.S. nationals hold the majority of intellectual property rights in this country. For example, in the patent area, Americans were the owners of 56% of all Canadian patents granted in 1982, compared to just 4% granted to by Canadians. CALURA statistics for the same year show that 76% of intellectual property royalty payments by corporations operating in Canada went to U.S. interests while 12% went to Canadians. It is apparent that the effects of Canadian intellectual property laws on intellectual property owners appear to be the primary source of U.S. concern about Canada in this area. Indeed, it could be

strongly argued that, even if there was absolutely no international trade in goods and services embodying components protected under intellectual property legislation, the U.S. would still be dissatisfied about what it views as the lack of adequate protection of intellectual protection under Canadian law. It should be noted that a similar argument could be made with regard to U.S. attitudes toward the intellectual property protection provided by a broad range of other countries, both developed and developing.

Given the above, the question arises as to why the U.S. would wish to raise intellectual property in negotiations intended to deal with trade in goods and services, as opposed to specialized intellectual property fora. The reason for this is related largely to U.S. dissatisfaction with these other fora and the associated need to find new avenues for encouraging other countries to provide stronger intellectual property protection. Discussions to revise the Paris Convention have reached an impasse after nearly two decades of negotiations, with the LDC's influence being a major factor. Furthermore, the Paris Convention provides no dispute settlement mechanism. Through the tying of intellectual property to negotiations such as the potential Canada/U.S. trade liberalization discussions or the upcoming round of the GATT, the U.S. can use their trade influence to full advantage.

In conclusion, any Canada/U.S. discussions on intellectual property must revolve around the inherent conflict between the interests of the U.S., as the owner of a very large share of intellectual property rights in this country, and the interests of Canada, which owns only a small share.

ISSUES LIKELY TO BE TABLED IN PRELIMINARY NEGOTIATIONS

This section deals only with those issues which either country could be expected to raise in very preliminary discussion, that is, those issues which could be regarded as irritants in current trading relations. The Quebec Declaration is not very instructive in this respect, noting only counterfeit goods, cable/satellite retransmission and "other abuses of copyright and patent law" as subjects for discussion. The particular issues raised in this section and characterized as American interests are, therefore, based on information gleaned from U.S. sourced literature on the subject and knowledge of the history of U.S./Canada relations in this area.

U.S. intellectual property rights owners are concerned with what they see as a worldwide epidemic of trademark counterfeiting and copyright piracy and are pushing for resolution of this problem on all possible fronts. The problem, from their viewpoint, is two-fold. First, many lesser-developed countries, particularly in the Middle East and the Pacific Rim, provide little or no copyright and trademark protection for U.S. nationals. Within their own domestic laws, therefore, unauthorized reproductions of copyright material and unauthorized use of trademarks are

legal. The U.S. is, therefore, pursuing bilateral discussions with these countries, wherever possible, in an effort to eliminate the source of these goods. These discussions have, by and large not been successful.

The second half of the problem, from the American viewpoint, is their feeling that laws in the developed countries are not strong enough to effectively close off the most lucrative markets for pirated and counterfeit goods. In its own domestic legislation, the U.S. has severely toughened criminal sanctions against the import of goods which would be considered as infringing U.S. copyright and trademark statutes. The U.S. has also been seeking, within the GATT (in cooperation with the Europeans), an international agreement on counterfeit goods.

Both Canada and the United States use a mixture of civil and criminal approaches in dealing with the importation of goods which would infringe on rights protected under domestic copyright and trademark laws. In Canada, however, criminal penalties are, generally, weak in comparison with American counterparts. Criminal sanctions under the Canadian Copyright Act, for example, have not been revised since 1921. Further, the U.S. makes much stronger use of seizure of goods by customs officials than does Canada. It

is worth noting that Revenue Canada would prefer not to devote further resources to this activity.

It is arguable, whether or not the Canadian approach to importation of infringing goods is inadequate. Domestic copyright interests claim that there is a problem with respect to importation of pirated works. With respect to counterfeit, however, a survey by the International Business Council of Canada indicates that the problem is, in general, small with the exception of auto parts. The U.S. will likely seek assurances from Canada, in these negotiations, that criminal penalties will be increased and that the state will take a more active role in policing the importation of infringing goods.

The U.S. will also be seeking increased intellectual property protection in Canada for a wide range of new technologies and works which they regard as only weakly protected or not specifically protected in law in Canada. In the main, American concerns with lack of protection or unclear protection stem from the fact that Canada's intellectual property laws have not been revised in any major fashion for several decades and, therefore, do not explicitly provide protection for technologies which have developed in the interim. The Canadian Patent Act, for example, was

last revised in a comprehensive fashion in 1935 the Copyright Act in 1921 and the Trade Marks Act in 1954.

Pharmaceuticals

One significant revision which has taken place in the past three decades was the 1969 amendment to the Patent Act which introduced provisions concerning compulsory licenses to import pharmaceutical products. Section 41(4) of the Act, obligates the Commissioner of Patents, in most circumstances, to grant compulsory licenses (against the wishes of the rights holder) to import pharmaceuticals on payment of a 4 percent royalty (at wholesale prices) to the patent holder. The provision has given rise to the establishment of a domestic generic pharmaceutical trade and a substantial import of low cost pharmaceuticals from sources not authorized by the original rights holders. For the year 1983, it has been estimated that Canadian taxpayers (through savings on provincial drug plans) and consumers paid $211 million less due to the compulsory licensing provision. The subject is highly charged and solarized in domestic circles and, therefore, must be approached with extreme caution. Numerous attempts at revision over the last 10 years have not been successful in terms of establishing a politically acceptable compromise between multinational subsidiaries, generic firms, consumer organizations and provincial governments.

Biotechnology

The other patent protection issue, from the American viewpoint, is biotechnology which is not expressly provided for under the Canadian Patent Act. A recent decision by the Commissioner of Patents in the Abitibi case would, however, seem to indicate that micro-organisms and processes for making them are eligible for patent protection. The Americans and, indeed, strong domestic interests groups would like to see this decision translated into law in order to strengthen certainty and clarity with respect to patent ability and exercise of rights.

Appellations of Origin

Other than the counterfeit issue already noted, the U.S. side may raise a small concern related to appellations of origin with respect to trademarks. While this is primarily a European issue on most products, Canadian Whiskey is expressly protected as a trade name in the American market and the Americans would like some form of specialized protection in Canada for Kentucky Bourbon. It is not anticipated that there would be much opposition in Canada to some form of protection. The entire subject of appellations of origin is, however, complicated given different interests

and systems in Canada, the U.S. and Europe and ongoing negotiations under the Paris Convention which seem to have reached an impasse with the lesser developed countries.[1]

Semiconductor Chips, Computer Programs and Data Bases

With respect to copyright, proposals for legislative revision are expected to come forward over the next year and a Parliamentary Committee will be releasing its own recommendations this fall.[2] Without wishing to second guess the Committee, it is anticipated that little domestic opposition will arise with respect to protection of semiconductor chips, computer programs and data bases. Indeed, it would appear that programs and data bases may already be protected as a result of recent jurisprudence. In part, lack of opposition stems from the fact that copyright, in general, protects only the form of expression rather than the idea

1. Consumer and Corporate Affairs is in the final stages of completing an information paper on the subject for inter-departmental distribution.

2. In general, the development of policy to deal with the broad range of issues related to cultural industries under the current copyright revision process (and there are many which are not listed as U.S. concerns) is the primary responsibility of the Department of Communications and, in this context, includes the satellite/cable retransmission issue. Copyright proposals related to high technology industries are the responsibility of Consumer and Corporate Affairs and include the issues of protection for semiconductor chips, computer programs and data bases.

contained in the copyrighted work. Thus it is permissible to create a different software package which achieves the same end as an existing package just as it is permissible to write a new book on a subject despite the existence of other books on the same subject.

Some discussion of computer programs and semiconductor chips is, however, illustrative of the strength of American interest in this area and the new approaches which the U.S. is using to influence foreign legislative development. American competition in both of these fields is strongest from Japan. In the recent past, MITI of Japan announced that they favoured protection of computer for 10 years with the express possibility of compulsory licensing. As a result of substantial American and domestic pressure, software in Japan will now be protected for the full copyright term of life of the author plus 50 years as is the case in the United States.

The new approach for the Americans in terms of semiconductor chips was to forge ahead with domestic legislation which included a provision for essentially reciprocal rights for foreigners whose governments had enacted similar legislation. The American Act was devised in close consultation with the Japanese who were sufficiently prepared to show up

at an interim protection hearing with a complete, translated copy of their proposed new Act. Between the U.S. and Japan, they now control 70 percent of world chip production. Canada like Japan and the EEC has applied for, and received interim protection in the U.S. on application by the Minister of CCAC and four Canadian industrial associations. We are, therefore, required to continue making good faith efforts to legislate protection in Canada if we wish to continue to receive protection in the U.S. The normal course of events would have been for the U.S. to have legislated protection domestically on a national treatment basis while at the same time seeking the establishment of an international convention. The bilateral reciprocity approach embodied in the U.S. Semiconductor Chip Protection Act is, therefore, indicative of a new approach which the U.S. may use again in the future to increase the pressure on foreign governments to accommodate U.S. intellectual property interests with greater speed.

Cable Retransmission

American concerns with cable retransmission rights deserve special consideration in this section given that they were raised specifically in the Quebec Declaration. Canadian cable companies have, for a number of years, been retransmitting signals from American border stations without paying compensation directly to the American broadcaster or

copyright owner. By contrast, U.S. cable companies do pay approximately one million dollars per year to Canadian broadcasters for works originating in this country under the compulsory licensing provisions of the U.S. copyright legislation.

The Americans view cable retransmission in Canada without formal copyright royalty payment as an abuse of intellectual property. In fact, however, some payment does accrue to American broadcasters (and through them, creators) from advertisers who pay rates which are scaled on the basis of total audience reached, including audiences in Canada served by cable retransmission.

It may be very difficult to satisfy American concerns in this matter. Domestic interests are polarized between domestic copyright owners, broadcasters, consumer groups and the cable companies. To accede to American demands for payment, using a fee structure similar to that in force in the U.S., would cost Canadian consumers, via the cable system, between 35 and 82 million dollars per year according to estimates by the Canadian Cable Television Association.

Satellite Retransmission

The satellite issue is related in that it also involves unauthorized use of U.S. origin programming. In Canada,

however, such use has by and large been restricted to private use via home satellite dishes and the provision of retransmission services in a small number of isolated northern communities. However, the U.S. government has stronger opposed the delivery by CANCOM of U.S. network broadcast signals to Canadian cable operator in the west and northern areas of Canada.

U.S. satellite stations are now experimenting with the use of coded signals which would provide a technological solution to their perceived problem. While retransmission of satellite signals in Canada would not appear to be a large issue in current economic terms, the U.S. would, presumably like assurances that this will not change in the future. Explicit treatment in the new Copyright Act now under consideration plus Canadian accession to the Brussels Satellite Convention would be desirable from the American point of view. With the exception, possibly, of northern communities, substantial opposition is not expected within Canada.

Plant Breeders Rights

The final item in the list of issues which could be raised by the Americans in initial discussion is plant

breeders rights. This item is characterized as "other intellectual property" because, in the U.S., some plant varieties are protected under the Patent Act while others are protected under the Plant Varieties Act. In both cases, users of protected seeds and plants are required to compensate rights holders who have developed the new varieties. The U.S. would like to see similar legislation in Canada although the magnitude of their concerns is not known.

In Canada, Agriculture Canada is expected to come forward with proposals for a Plant Breeders Rights Act in the coming year. Domestic opposition is very strong, particularly from the large farm unions who are concerned about increased seed costs and church organizations who feel that plant breeders rights represent commercialization of naturally occurring gifts of God. At the present time, most plant variety research is carried out in public institutions and has been considered successful in terms of meeting Canadian needs. International seed houses with current or future commercial interests in Canada are the main proponents of new legislation.

Canadian Interests

[EXEMPT
Sec. 15(1)]

[EXEMPT Sec. 15(1)] The most often mentioned irritant is Section 337 of the Trade and Tariff Act by which the International Trade Commission can block intellectual property infringing goods from import into the U.S. Section 337 is more offensive in terms of lack of due process for Canadians rather than in terms of large economic effects on Canadian interests. There have, in fact, only been 17 Canadian cases under Section 337 since 1974 (of approximately 225 cases to date) and only 5 of these have resulted in judgements. Japan and Taiwan have suffered more; together accounting for 44 percent of all cases.

The only other item sometimes mentioned as a possible Canadian issue relates to Canada's current exemption from the Manufacturing Clause under the U.S. Copyright Act. Canada could seek assurances that this clause will be allowed to expire as currently schedules on July 1, 1986 or that Canada will continue to be exempt if it is extended further.

This matter has been linked, over the past several years to possible Canadian accession to the Florence Agreement. When Canada's exemption from the manufacturing clause was granted, Canada provided duty-free entry of books and periodicals (as prescribed in the Florence Agreement) as a

quid pro quo. The U.S. would favourably view Canadian accession tot he Florence Agreement as it would ensure that Canada would not reimposing these duties. The relationship between these two issues over the past several years provides an important example of intellectual property and trade concerns being negotiated between the two countries.

In sum, therefore, the U.S. is likely to place a large number of intellectual property items on the table in initial discussions aimed at reducing irritants.

[EXEMPT
See 15(1)]

TACTICAL CONSIDERATIONS

EXEMPT
Sec. 15 (1)

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Sec. 15 (1)

INTELLECTUAL PROPERTY AND ECONOMIC INTEGRATION

It is anticipated, at this time, that negotiation of intellectual property issues in the bilateral discussions will be directed largely towards the reduction of irritants as seen from the American viewpoint. It is possible, however, that negotiations will proceed to consideration of a more comprehensive integration of the economies of Canada and the U.S. Some discussion of the role of intellectual property in such a common market would, therefore, be useful.

In a situation incorporating comprehensive economic integration, Canadian and American intellectual property legislation would have to be closely harmonized in terms of scope of protection. Implicit in this is the recognition that Canada would have to come to an accommodation with the Americans on all of the issues which have been discussed in the context of irritants. Indeed, proposing such a common market, at least in intellectual property matters, might be one way by which the U.S. could achieve all of its objectives in this area. Under such a circumstance, for example, it would be impossible for one country not to protect, say, pharmaceuticals, because this would lead to imports to the second country which would violate that country's laws.

Canada would, of course, lose the ability to legislate independently.

Further, national laws would also have to be harmonized in terms of administrative detail. It would not be desirable, for example, for a patent to issue in one jurisdiction which did not issue in the other. Under current law, this would be possible because the Americans have a "first to invent" system while we have a "first to file" system. It would equally be desirable for intellectual property rights to issue at the same time and on the same basis of examination. This should give rise to consideration of the creation of common granting institutions or at a minimum reciprocal granting rights (a patent issued by the U.S. government would be valid in Canada and vice-versa).

It is also likely that a common dispute settlement institution and law would be required given that rights holders in either country would not be pleased to see their rights in both Canada and the U.S., compromised by a decision in the other country.

Intellectual property provisions in themselves constitute a barrier to trade in that rights holders are generally granted the exclusive right to control the quantity and

price of imports. This is not a trade barrier in the usual sense because it is not exercised by governments (as, for example, quotas) but, rather, it is a right delegated to private interests. In a common market setting, the right to control trade between Canada and the U.S. on intellectual property grounds would have to be eliminated as is now the case within the European community. At the same time, a common front, probably along U.S. lines, would have to be maintained against imports from any third country which violated the common intellectual property law.

The treatment of intellectual property and free trade in this section is by no means exhaustive given uncertainty as to how far discussions will proceed. Close examination of the European experience with respect tot he treatment of intellectual property within the E.E.C. would be illustrative in this respect and can be provided as negotiations develop.

CONCLUSION

The purpose of this paper has been to provide background information and preliminary assessments regarding intellectual property issues which are relevant to the possible upcoming Canada/U.S. bilateral trade negotiations. The Quebec Declaration, itself, is not particularly instructive in terms of the specific issues which might be raised and, hence, identification of exact issues results from knowledge of the history of U.S./Canada relations on intellectual property matters.

Particular care has been taken to clarify American interests in these negotiations. Stronger intellectual property protection in Canada will not necessarily result in changes int, e pattern of Canada/U.S. trade but it will ensure that some remuneration flows to the rights holders, the vast majority of whom reside in the United States. The U.S. is dissatisfied with progress being made in traditional intellectual property fora. Hence, seeking to have intellectual property placed on the bilateral agenda and ont he agenda for the upcoming GATT in order to be able to use trade leverage to accomplish the goal of stronger international protection benefitting American nationals.

It is assumed for this paper that initial negotiations on intellectual property will focus on reducing irritants in bilateral relations. The Americans will likely wish to raise a number of intellectual property issues int his initial phase. In terms of closing off developed country markets for pirated copyright goods and counterfeit trade mark goods, for instance, the U.S. would like to see stronger criminal penalties for infringement and greater use of customs inspection.

Americans would also like to see intellectual property protection in Canada established or enhanced with respect to a number of technologies already protected in the U.S. American interest in this regard include protection for pharmaceuticals, biotechnology, appellations or origin, semiconductor chips, computer programs, data bases, cable retransmission, satellite retransmission and plant breeders rights.

EXEMPT
Sec. 15(1)

The paper provides some information on each of these issues in terms of issue description and the current play of domestic interests. Indeed, it may be difficult to satisfy American wishes on some items such as pharmaceuticals and cable retransmission given the entrenched position of domestic interest groups. The infor-

mation provided is intended to give only a broad overview of issues and clearly more detailed information will be required on each once a decision has been taken to proceed with negotiations.

EXEMPT
Sec. 15(1)

EXEMPT
Sec. 15(1)

Finally, some discussion is provided o the changes which would be necessary to intellectual property law in both jurisdictions should these discussions proceed to encompass more comprehensive integration of the two economies. The major point is that intellectual property would have to be eliminated as a potential trade barrier between

the two countries along the European lines. Further, equal protection in substance and in detail would have to be provided in both jurisdictions, common or reciprocal rights granting rights would have to be arranged and, common institutions and law would have to be developed with respect to dispute settlement and treatment of the rights of third parties.

On this final point and, indeed, on all points raised in this paper, CCAC is prepared to provide further information as required.