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Is Taiwan On a Priority Path?

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Over the past decade, Taiwan has gone from intellectual property pest to promising pupil and back again if we are to judge by the Special 301 lists on intellectual property rights announced each year by the United States Trade Representative (USTR).

April 30 is the date for the decision, and all signs are pointing to the probability that Taiwan's status will be "upgraded" from the Watch List, where it has found itself since an out-of-cycle August 1998 review, to the more serious Priority Watch List. While an "upgrade," in Special 301 parlance, is not a positive occurrence, there may be a silver lining, and the authors are optimistic that this year's Special 301 process may portend brighter days ahead for IPR protection in Taiwan.

Special 301 Primer

The term "Special 301" refers to provisions within the 1974 Trade Act that allow the U.S. government to use the threat of serious trade sanctions if a trading partner's lack of IPR protection adversely affects U.S. interests. Special 301 predates, but anticipates, the inclusion of intellectual property as a subject for protection in the World Trade Organization regime that has now become known as TRIPS (Trade Related Aspects of Intellectual Property Rights).

Under Section 182 of the 1974 Trade Act (as amended by Section 303 of the Omnibus Trade and Competitiveness Act of 1988), the USTR is required annually to determine whether the acts, policies, and practices of U.S. trade partners (governments, not private entities) present adequate protection for intellectual property rights, or whether the lack of protection results in the denial of fair and equitable market access for U.S. companies and individuals who rely on intellectual property protection.

The importance of intellectual property to the U.S. and world economy has prompted the very strong protection accorded through the Special 301 procedures. For example, a report recently issued in the United States sets "core intellectual property" as accounting for nearly 5 percent of America's GDP.

The Special 301 process begins every year in January with the placement of a notice in the Federal Register requesting submissions regarding problems of IPR owners in foreign countries. Typically, the USTR receives five to ten submissions concerning Taiwan each year. Officials review these submissions alongside information provided by other organizations. In the case of Taiwan, evaluators largely rely on the American Institute in Taiwan, but USTR officials also travel to the island (Claude Burcky and others U.S. officials visited from February 27 to 29) to meet with representatives of Taiwan's private and public sectors, U.S. business, and, of course, AIT.

By the end of April, the USTR decides which countries have laws, regulations, practices or policies that prejudice the rights of U.S. business and thus present trade barriers. The most serious violators are placed on the Priority Foreign Country list. Retaliatory trade sanctions could follow should those countries fail to commit to corrective measures. Taiwan was included on this list in 1992. Currently, this list is blank. Ultimately, a foreign country can be assessed tariffs equal to the amount projected as having been lost to U.S. business due to piracy or other shortcomings in IPR protection.

Countries with less offensive policies or practices may be placed on (in descending order of severity) the Priority Watch List, the Watch List, or the Special Mention list. Following the April 2000 announcement, 16 countries or territories were placed on the Priority Watch List, including Argentina, Egypt, Greece, the European Union, Korea, Russia, and Israel. Another 39 countries were named on the Watch List, including Taiwan plus Japan, Macau, Singapore, Thailand, Vietnam, Ireland, Australia, and Canada, among others.

Taiwan's inclusion on the Watch List last year marked a regression from years past. In 1996, the island was given the lowest designation, Special Mention, and after finalizing an 18-point action plan to improve IPR protection, Taiwan was removed from all lists for the first time since the annual practice began in 1989. Taiwan went back on the Watch List in an August 1998 "out of cycle review" (the law permits the USTR to review any country at any time, in addition to the annual review) and has stayed on the list since. But this may change next month if, as expected, the island is included on the Priority Watch List.

After All These Years

Despite its efforts to protect IPR, Taiwan remains one of the major sources of counterfeits entering the United States, according to U.S. customs statistics. There are also concerns that while much of the traditional counterfeiting has left Taiwan, it has simply moved across the straits and now Chinese factories, run by Taiwan investors, are turning out the problem products. Lack of enforcement is continually raised as a problem during the Special 301 review. Criticisms of Taiwan's enforcement have included: unnecessary formalities (notarization and legalization of court documents, signatures of CEOs or chairman required), light penalties for infringement (sentences converted to fines, suspended sentences, or decisions of non indictment), or problems within the procedural aspects of the laws themselves (maximum civil damages and criminal penalties too light, lack of effective procedures for confiscation, lack of effective discovery).

Taiwan also has been accused by U.S. industry of taking the issue of IPR protection seriously only when it comes time for the Special 301 review, then losing interest after the announcements are made. Last year's so-called K Plan is cited as an example of this on again, off again approach.

Under the K Plan, initiated by the Ministry of Economic Affairs, police normally assigned to protect state-owned enterprises (e.g., China Petroleum, Taipower) were designated as a special task force to work with other agencies to investigate and assist in IPR enforcement against piracy of optical media products, mainly CDs, CD-ROMs, VCDs and DVDs. The plan last year resulted in the apprehension of NT\$8 billion worth (over US\$250 million) of counterfeit products. There has been no consensus, however, among U.S. industries as to the efficacy of the program and thus many Taiwan authorities have faced difficulty mustering enthusiasm for reinstating it. Even so, the K Plan was restarted on March 1, 2001 under the guidance of the Deputy Director General of the IPO.

The loudest voices calling for improvements in Taiwan's IPR regime have come from the motion picture, software (including game software), and music industries. All three of these sectors have suffered major challenges from optical media piracy originating in Taiwan, the sale of pirated software through *ta putieh* CD-Rs (compilation disks), as well as the massive increase in Internet usage that allows not only the trade of hard goods, but also allows many of the products themselves – film, music, software – to be duplicated and transmitted at the touch of a key.

While officials counter that Taiwan has implemented extensive and expensive export monitoring programs preventing the export of illegally produced products, the U.S. Customs Service claims to have seized US\$6million-worth of made-in-Taiwan pirated goods in the year ending September 2000. This places Taiwan second only to China in terms of counterfeits entering the United States.

In its 2000 Special 301 Report, the USTR gave Taiwan credit for the establishment of its Intellectual Property Office (IPO) under the Ministry of Economic Affairs. Authorities at the IPO were lauded for their energy and their cooperation with enforcement authorities, which resulted in the closure of a number of CD manufacturing facilities. Nevertheless, the report cited Taiwan's failure to respond

adequately to U.S. government requests to improve enforcement of optical media source identification code regulations and to make chip marking mandatory. Adequate implementation of these measures would allow authorities to track down manufacturers of pirated optical media and chips more easily.

In 2000, submissions were made by associations including the International Intellectual Property Alliance (IIPA), the International AntiCounterfeiting Coalition, the Software and Information Industry Association, and the Semiconductor Industry Association. Canal+, Micron Technology, and Nintendo (of America) also offered submissions addressing their particular complaints regarding Taiwan's IPR protection.

The deadline for Special 301 submissions this year was February 16. The IIPA's 2001 submission recommends that Taiwan be put on the Priority Watch List, citing its record as "one of the world's worst pirate exporters of optical media." The IIPA commended Taiwan for having adopted the K Plan last year, but criticized Taiwan's failure "to enact and enforce adequate laws or regulations controlling optical media plants, including the machinery and the raw materials used to produce pirate copies, the failure to shut down known commercial pirates, and the rise of Internet piracy."

IP&L Committee's Special 301 Gathering

AmCham's February 14 IP&L Committee meeting brought a large turnout with featured speaker AIT Economic Section Chief William Weinstein discussing Special 301 issues. One issue considered by members to be worthy of scrutiny is the amendment to Taiwan's Code of Criminal Procedure Law, passed in the last moments (literally) of the last legislative session. Most companies rely largely on the criminal justice system for enforcement of rights. In the case of commercial counterfeiting, this will often involve a raid--a search and seizure by the police of an infringer's point of sale or factory. The new amendments, which take effect July 1, 2001, shift the right to issue search warrants from the prosecutor to the judge. Many rights owners are concerned that this may compromise their ability to act quickly against pirates. Adding another layer of bureaucracy to the search warrant application process may mean that fewer raids will be carried out on pirated goods in Taiwan. Prosecutors now routinely turn down applications for search warrants on pirates because of personal bias or a lack of interest. With this amendment, applicants will now also be subject to the leanings and the availability of judges. Concerns with the new procedures were also raised by members of the IIPA in their submission.

On the patent side, representatives of the Pharmaceutical Research and Manufacturers of America (PhRMA) urged the government to amend its Patent Law to ensure that all patents in effect on the date of WTO accession will enjoy a term of at least 20 years of protection from the date of filing. According to recent press reports, Taiwan is responding favorably to the PhRMA initiative due to the TRIPS/WTO connection and appropriate amendments to the Patent Law are expected to go into the legislature this spring. Meanwhile, the software industry is promoting a more proactive approach from the government to encourage suppliers and all government agencies to use legal software.

On or Off?

Press reports on USTR's visit to Taiwan at the end of February indicated that measures must be taken very quickly in order to convince the USTR that Taiwan should not be added to the Priority Watch List. Marked improvement in enforcement, movement to adopt an optical media law, concrete proposals for significant revisions to the Copyright Law, and progress on the patent term amendments to the Patent Law appear to be the minimum.

This will be the first year that Taiwan's new government will be scrutinized for IPR protection and the industry is not expecting too much. This seems reasonable considering that many of the systems, attitudes, and mid-level officials have been inherited from the previous government. Even so, the 2001 Special 301 process provides an ideal opportunity for the new government to strongly affirm its commitment to making Taiwan one of the best places in Asia for protecting intellectual property rights. *Please direct inquiries regarding this article to Robin J. Winkler rwinkler@winklerpartners.com.*

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