

Trump's trade policies could run afoul of treaties, bring on counterfeits

Global IP

By [Doris Estelle Long](#)

Doris Estelle Long is the president of Doris Long Consulting, specializing in U.S. and international IPR and information security issues; a screenwriter and producer for VeraKen Productions; and a law professor emeritus at The John Marshall Law School. She has served as a consultant on IPR issues for diverse U.S. and foreign government agencies, including as attorney adviser in the Office of Legislative and International Affairs of the USPTO. She can be reached at prof.doris.long@gmail.com.

POSTED March 15, 2017 1:18 PM

In the early days of the Trump presidency, pundits discovered that promises labeled “rhetorical” during the campaign were not so rhetorical after all.

In short order, President Donald Trump ended the TransPacific Partnership, or TPP, and issued a travel ban against seven Muslim countries. There is little reason to doubt that he will also impose a promised outsourcing “penalty” on U.S. companies to draw jobs back into the United States. Unless carefully crafted, such a penalty could also unintentionally penalize U.S. intellectual property rights abroad.

The two most popular outsourcing penalties under discussion are a “border adjustment tax” and increased tariff duties on designated imported products. Regardless of the form chosen, one unavoidable side effect will be an increase in local counterfeiting. Past practice has proven that yesterday's foreign production facility is readily convertible into today's pirate factory. Worse, the quality of the goods of such factories often remains high because they are employing workers trained by the trademark owner.

The greater the local economic impact of any drawback, the greater the lack of will to enforce the IP owner's rights in the affected country. Fortunately, U.S. companies can generally seek the assistance of local embassies and government agencies such as the U.S. trade representative and the U.S. Patent and Trademark Office to combat such local intransigence.

The effectiveness of any such efforts could be jeopardized, however, if the outsourcing penalty imposed by the administration violates present international trade agreements. In the worst case scenario, such violation could result in a lawful suspension of protection of U.S. intellectual property rights in the affected country if the “penalty” violates U.S. obligations as a member of the World Trade Organization.



his inaugural address to Congress.

To achieve its goals, the WTO currently administers more than 60 trade agreements and binding commitments, referred to collectively as the "WTO Agreements." These accords cover a broad array of topics including tariffs, antidumping prohibitions, market access and intellectual property protection, or TRIPS.

Unlike the TPP or the North American Free Trade Agreement, or NAFTA, the WTO Agreements do not establish a free trade union. Instead, tariffs are reduced through binding commitments by member countries enforceable under the WTO's dispute settlement procedures.

The procedures are basically an arbitration process that allows member countries to seek relief for another's failure to meet its obligations under the WTO Agreements. Penalties include trade sanctions, such as the right to impose higher tariffs on goods and services imported from the losing country.

Increasingly, however, allowable penalties include the right to suspend protection obligations under TRIPS, even if the violation at issue is unrelated to intellectual property rights.

Most recently, this suspension right, referred to as "cross-retaliation," was sanctioned in 2013 in a dispute settlement procedure involving a challenge by Antigua and Barbuda to U.S. laws that prohibited foreign countries from marketing online gaming services (WT/DS285).

As a result of its successful dispute settlement procedure, Antigua was awarded sanctions in the amount of \$21 million per year for its continuing exclusion from the U.S. market.

Instead of imposing trade sanctions, Antigua announced that it would suspend protection of U.S. intellectual property rights. In November, in the absence of a negotiated settlement, Antigua announced that it would begin actual suspension this year. Such suspension could well result in the development of an active pirate industry in Antigua.

Fortunately, cross-retaliation is not available in all cases. Instead, the country seeking cross-retaliation must demonstrate that it is "not practicable or effective to suspend ... obligations" with respect to the sector or agreement at issue.

In the case of Antigua such ineffectiveness was demonstrated through evidence that the size of the affected online service industry was not sufficiently large enough to secure U.S. compliance. In fact, Antigua successfully argued that retaliating through import restrictions would have a "disproportionate adverse impact on Antigua and Barbuda by making these products and services materially more expensive to the citizens of the country."



party, it may happen that the suspension of certain concessions or certain other obligations entails more harmful effects for the party seeking suspension of concessions than for the other party" (WT/DS27).

Although this analysis suggests that only smaller economies may secure suspension of IP enforcement, Brazil was granted this right in its Upland Cotton Subsidies dispute settlement procedures against the U.S. (WT/DS267).

Without specifics regarding the nature of the future outsourcing penalty, including the sector and countries affected by anticipated drawbacks, it is too early to predict the strength of the threat of cross-retaliation. However, IP owners do not have to wait to reduce the threat of counterfeiting from drawbacks.

As a first step, trademark owners should conduct an IP audit. Trademark registrations should be sought in the country of present production for all branded goods subject to drawbacks. Registrations currently held by manufacturing licensees or affiliated production companies should be immediately transferred to the U.S. company. Without such trademark registrations, on a practical level, no local challenges to counterfeits is possible.

In addition, security procedures should be re-evaluated to assure that critical molds, matrices and other production equipment are protected against inadequate disposal or unauthorized reproduction in the event of a planned drawback. Heightened scrutiny for increased counterfeiting activity post-drawback with an action plan to combat such activity should be in place prior to any drawbacks.

U.S. embassies generally have commercial affairs divisions that can provide in-country assistance.

There are various reasons for U.S. companies to draw back outsourced productions, including growing labor and shipping costs abroad. But any laws enacted to encourage such drawbacks must ensure that they are not bought at the cost of an IP owner's rights.