

# DEVELOPING COUNTRIES ARE UNDERMINING CORPORATE AMERICA'S CAPACITY TO MARKET ITS CREATIVITY: A CALL FOR A REASONED SOLUTION BY THE UNITED STATES GOVERNMENT IN LIGHT OF THE CONTINUING DETERIORATION OF THE INTERNATIONAL TRADEMARK SYSTEM

## I. INTRODUCTION

There is a growing crisis among international trademark owners over the protection afforded international trademarks in developing countries.<sup>1</sup> American companies face increasingly restrictive foreign barriers on trademark use.<sup>2</sup> These restrictions limit the equitable access American companies have to foreign markets,<sup>3</sup> and threaten to eliminate the trademark's traditional function.<sup>4</sup> Developing countries view trademarks as a means of acquiring much needed technology through licensing agreements.<sup>5</sup> These countries, however, dispute claims by corporations that their trademark legislation, directed against international trademark owners, is abusive.<sup>6</sup> Contrarily, they seek a legitimate means to curb the exploitation of local resources and domestic industries.<sup>7</sup> Developing countries seek to attach the recognition associated with international trademarks to local industry, thereby freeing themselves

---

1. Willis, *Trademarks in Argentina, Brazil and Andean Pact Countries - A United States Perspective*, 66 TRADEMARK REP. 183 (1976).

2. N.Y. Times, Apr. 8, 1986, at 7, col. 1. United States Trade Representative Clayton Yuetter stated the growing pirating of trademarks strikes at an area "in which the U.S. has a competitive advantage over the rest of the world." *Id.*

3. *Id.*

4. The trademark's traditional function is to protect the manufacturer's name. Note, *International Trademark Licensing Agreements: A Key to Future Technical Development*, 16 CAL. W. INT'L L.J. 178, 181 (1985). Another manufacturer can duplicate a product and market it under a different name and not violate trademark law. *Id.*

5. *Id.* at 178. Trademarks are important in the development of Third World countries because foreign owned industry will not invest in developing countries unless an adequate return on their investment is realized. *See id.* at 180. Trademarks are a means of insuring that a sufficient return is received. Revenue is produced through the payment of royalties by the licensee for the use of a trademark. Without foreign involvement, developing countries often can not acquire or operate the technology needed to sustain their economic growth. Ball, *Attitudes of Developing Countries to Trademarks*, 74 TRADEMARK REP. 160 (1984).

6. Ball, *supra* note 5, at 160. However, some accusations by international trademark owners may be justified, but "it should also be kept in mind that in encouraging local industry, and attempting to improve the welfare of their citizens . . . [developing countries view their] actions [as] . . . valid and reasonable." *Id.*

7. *See id.*; *see also* Note, *supra* note 4, at 177, 180.

from foreign control and ending barriers that prevent market access by local manufacturers.<sup>8</sup>

In response, legislation has recently been proposed in Congress to protect American trademarks abroad more aggressively.<sup>9</sup> The legislation proposes to link trade and monetary aid with intellectual property rights.<sup>10</sup> This linkage is bound to be resisted by developing countries that are struggling with debt repayments, and who already provide as great a protection on trademarks as their level of development permits.<sup>11</sup>

Apparently, the United States is on the verge of pursuing a policy of trademark protectionism.<sup>12</sup> This action fails to consider the impact this policy will have on the integrity of the trademark system in developing countries. Such a policy may exacerbate the international trademark crisis.

This Note asserts that the international trademark problem is the result of a series of reactionary and retaliatory actions rooted in self-interest.<sup>13</sup> Foreign trademark owners abuse the trademark system by manipulating their trademark rights and engaging in business activities that benefit their economic interests while exploiting Third World industries and consumers.<sup>14</sup> Developing countries react by enacting legislation that restricts the use of foreign trademarks in their countries.<sup>15</sup> These enactments attempt to address the disparities in the trademark system which foster the harmful business activities engaged in by foreign trademark own-

---

8. *Restrictive Business Practices: Report of the United Nations Conference on Trade and Development*, U.N. Doc. TD/B/C.2/119/Rev.1, para. 41 (1974) [hereinafter *UNCTAD Report*]. In 1974, 50 percent of all trademarks registered in the Third World were owned by foreigners. Willis, *supra* note 1, at 184.

9. S. 335, 100th Cong., 1st Sess. (1987); H.R. 1328, 100th Cong., 1st Sess. (1987). In 1986 similar trade protectionist measures were proposed, which included: S. 2435, 99th Cong., 2d Sess. (1986); S. 2663, 99th Cong., 2d Sess. (1986); H.R. 4800, 99th Cong., 2d Sess. (1986). The trade bill's objectives are to promote American business interests overseas by safeguarding American firms that rely on intellectual property protection. *N.Y. Times*, Mar. 11, 1987, at 1, col. 3.

10. *N.Y. Times*, Mar. 26, 1987, at 1, col. 6. The proposals include mandatory retaliation in the form of tariffs or quotas against countries that persist in promoting "unfair trade practices" directed at American corporations and termination of benefits previously extended to a developing country. *Id.*

11. *Id.*; see also *supra* note 2.

12. *N.Y. Times*, June 21, 1987, at 5, col. 2. The U.S. Government is in the "most protectionist climate" since the 1930's. *Id.*

13. See generally Ball, *supra* note 5, at 172.

14. See generally Note, *supra* note 4, at 181, 183.

15. See *id.* at 180, 193.

ers and to protect the economic interests of developing countries.<sup>16</sup> However, they limit the trademark's function.<sup>17</sup> Similarly, if the U.S. Government enforces a policy of trademark protectionism that promotes American business interests abroad, this action may contribute to the deterioration of the trademark system because developing countries will react adversely to a policy that operates at the expense of their social and economic welfare.<sup>18</sup>

A more equitable solution may exist to bind the contrasting objectives sought by developing countries and international trademark owners than unilateral trade and monetary sanctions. The solution will be found in the understanding of the social and political differences that exist between industrialized nations and developing countries, and the acceptance of limited modifications in the common practices of international trademark law. Resolution of the crisis will require the satisfaction of mutual interests in order to achieve market stability, mutual growth and shared prosperity.

This Note will examine the international trademark protection problem and analyze the impact that the American Government's recent policy proposals may have on developing countries unable to adequately protect American intellectual property rights. In this regard, Part II will review the emergence and growth of trademark law and its role in creating the current dilemma. Part III will discuss the major international trademark agreements and their role in the international trademark crisis. This leads to an overview in Part IV of the recent legislative responses many developing countries have taken to cure problems with foreign trademark use in their countries. Part V examines the United States recent trademark protection proposals. Part VI will analyze the implications such a protectionist policy, as embodied in the legislation, may have on the present international trademark community, given the current international trademark situation. Finally, Part VII will recommend alternative solutions aimed at resolving the international trademark crisis. This Note will conclude that a policy directed at improving trademark protection for American companies abroad, by linking trade with intellectual property rights, is inappropriate in light of the continuing deterioration of the trademark

---

16. See Ball, *supra* note 5, at 166-68.

17. See *id.* at 160.

18. *Proposed Foreign Trade Legislation, Pro & Con*, CONG. DIG. 201 (Aug.-Sept. 1986) [hereinafter *Proposed Foreign Trade Legislation*]. United States Representative Robert H. Michel stated: "other nations are just waiting for us to give them an excuse to shut the doors on our products." *Id.*

system in Third World countries. This Note posits that future U.S. foreign intellectual property policy is misguided and that future policy should be based on understanding and compromise, rather than self-interest, in order to end a growing crisis in the international trademark community and secure American business interests overseas.

## II. THE ORIGIN OF THE INTERNATIONAL TRADEMARK PROTECTION PROBLEM

The trademark, in its present form, appeared during the industrial revolution, when its use arose to identify the origin of products being mass produced.<sup>19</sup> The modern concept of trademark law thus emerged in developed countries.<sup>20</sup> A modern trademark, as defined by the Lanham Act<sup>21</sup> is "any word, name, symbol or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."<sup>22</sup> The trademark, therefore, serves two functions.<sup>23</sup> First, it identifies the trade or business associated with the trademarked product,<sup>24</sup> and second, it functions as a guarantee of consistent quality.<sup>25</sup> Both of these functions benefit the consumer and manufacturer by protecting their

---

19. Diamond, *The Historical Development of Trademarks*, 73 TRADEMARK REP. 222, 232, 238 (1983). Trademarks were commonly found inscribed on ancient greek pottery and other artifacts, presumably as a symbol that established ownership. *Id.* at 222.

20. *Id.* at 239; Note, *supra* note 4, at 181.

21. Lanham Trade-Mark Act § 42, 15 U.S.C. § 1051 et seq. (1970).

22. *Id.* Generally, "the exclusive right to a particular trademark vests with the first party to use it to identify goods or merchandise of a particular business. Sole use of a [trade]mark may be secured by registration under the Lanham Act." Dobb, *Compulsory Trademark Licensing as a Remedy for Monopolization*, 68 TRADEMARK REP. 505, 507 (1978).

23. Diamond, *supra* note 19, at 246-47.

24. *Id.* The trademark originated as an identification symbol. It no longer signifies ownership of a product. Today, the trademark identifies a product with a manufacturer. O'Brien, *The International Trademark System and the Developing Countries*, 19 IDEA 89, 92 (1978).

25. Diamond, *supra* note 19, at 246. As an identification symbol the trademark also serves the consumer by enabling him to distinguish similar products sold by different manufacturers. See Note, *supra* note 4, at 184. A product's quality, to some degree, is influenced by the consumer who will only continue to purchase a product they find satisfactory. *Id.* Furthermore, when foreign trademark owners license their trademarks to industries, the contract usually requires that quality control measures be implemented. Howarth, *Are Trademarks Necessary?*, 60 TRADEMARK REP. 228, 234 (1970). As a result, the trademark has been touted as a symbol of quality, however, it only serves as an indicator of consistency in quality. Diamond, *supra* note 19, at 246. It does not insure quality. *Id.*

interests.<sup>26</sup> For example, by identifying the product with the manufacturer, trademarks help avert fraudulent marketing of goods by preventing similar but inferior products from being marketed under the same trademark.<sup>27</sup>

The trademark's usefulness, however, has not been limited to the role of protector and has taken on new importance as a marketing device.<sup>28</sup> Herein lies the source of one of the controversies surrounding the conflict over the trademark's usefulness in developing countries.<sup>29</sup> This alternative role primarily benefits the trademark owner,<sup>30</sup> who uses the trademark as a tool to promote the product's "goodwill."<sup>31</sup> Goodwill has been defined as "the attachment of buyers to, and their propensity to purchase, the products of a particular firm."<sup>32</sup> But the trademark does not function merely as a symbol of goodwill, it often serves as "the most effective agent for the creation of goodwill."<sup>33</sup> As consumers recognize and associate a level of quality with a product, and are satisfied with that product, they tend to purchase it exclusively.<sup>34</sup> Satisfied consumers will also buy different products bearing the same trademark of a particular manufacturer.<sup>35</sup> This phenomenon is called the "spillover effect."<sup>36</sup> Consequently, the goodwill associated with a trademark is transferable.<sup>37</sup> The outgrowth of the trademark's function as a marketing device, apart from licensing fees, is that it becomes a tool by which to generate revenue for its owner by at-

26. Shanahan, *The Trademark Right: Consumer Protection or Monopoly?*, 72 TRADEMARK REP. 233, 234 (1982). The trademark protects the manufacturer by identifying a product with his manufacturing process. *Id.* The trademark also allows the public to be protected inexpensively by enabling the consumer to identify and hold a manufacturer accountable for any harm his product causes. *Id.* at 236. However, some countries may disallow such action. *Id.*

27. *Id.* at 238-39. "Trademark owners generally do an excellent job in preventing deception. They have the incentive [and resource] to sue infringers" thereby protecting the interests of consumer and manufacturer alike. *Id.* at 236.

28. *Id.* at 241.

29. See *infra* notes 49-54.

30. T. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION 57, 95 (1973).

31. See Shanahan, *supra* note 26, at 241.

32. Note, *supra* note 4, at 182 (citing H. EDWARDS, COMPETITION AND MONOPOLY IN THE BRITISH SOAP INDUSTRY 26 (1962)); see also T. MCCARTHY, *supra* note 30, at 61. Goodwill is the "favorable consideration shown by the purchasing public of goods known to emanate from a particular source." *Id.*

33. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 819 (1927).

34. T. MCCARTHY, *supra* note 30, at 60-62.

35. O'Brien, *supra* note 24, at 95.

36. *Id.*

37. See T. MCCARTHY, *supra* note 30, at 57-58.

tracting consumers to the manufacturer's varied product line.<sup>38</sup>

This secondary function as a marketing device at first seems an acceptable tool in a competitive market place.<sup>39</sup> However, in developing countries, this function has been used unfairly.<sup>40</sup> With the development of mass communication and public access to mass media, the trademark's alternative role has acquired new importance because its purpose, the creation of goodwill, has become the trademark owner's primary source of wealth.<sup>41</sup>

There are four significant factors, *inter alia*, that aid in the creation of goodwill,<sup>42</sup> including: 1) the consumer's behavior pattern and brand selection, 2) the trademark's recognition, 3) the association of the trademark with quality, and 4) advertising strength.<sup>43</sup> All four factors can be manipulated by the trademark owner to his economic advantage.<sup>44</sup> However, advertising is the key factor.<sup>45</sup> It is the linchpin which binds all four factors in the creation of goodwill.<sup>46</sup> Advertising a trademarked product over a mass medium, for instance, will dramatically increase the trademark's recognition.<sup>47</sup> Advertising, therefore, is the most efficient means by which to increase the goodwill consumers associate with a manufacturer's product.<sup>48</sup>

In developing countries, the use of advertising is especially profitable because the local population tends to be less educated and more susceptible to the influence of advertisements.<sup>49</sup> Often

---

38. Note, *supra* note 4, at 183. A trademark owner's income is characteristically produced by the remittance of royalty fees paid by the licensee for the use of the trademark. *Id.* The domestic producer's payment is often burdensome. *Id.* However, the generation of income is ultimately tied to the trademarks goodwill which always belongs to the foreign trademark owner. O'Brien, *supra* note 24, at 93 (citing Helleiner, *The Role of Multinational Corporations in the Less Developed Countries' Trade Technology*, 3 *WORLD DEV.* 161, 164 (1975)).

39. See E. KITCH & H. PERLMAN, *LEGAL REGULATION OF THE COMPETITIVE PROCESS* 409 (1976).

40. See Ball, *supra* note 5, at 162.

41. See T. MCCARTHY, *supra* note 30, at 57, 95.

42. Note, *supra* note 4, at 182-83.

43. See *id.*

44. *Id.* "The activities of multinational corporations have significant effects on developing countries of an economic, social, and political character." See *UNCTAD Report, supra* note 8, para. 30.

45. Note, *supra* note 4, at 182-83.

46. *Id.*

47. See E. KITCH & H. PERLMAN, *supra* note 39, at 409.

48. See Note, *supra* note 4, at 183 n.47 (citing *The Role of the Trademark in Developing Countries: Report of the United Nations Conference on Trade and Development*, 1 U.N. Doc. TD/B/C.6/A.C.3/3/Rev.1 (1979)).

49. Ball, *supra* note 5, at 162. Consumers in developing countries are more susceptible

the trademark owner will use the media to stimulate public interest in his product.<sup>50</sup> By using persuasive advertising, the consumer's preference for foreign trademarked goods can be increased and retained.<sup>51</sup> Advertising thus becomes an effective way to shift consumer preference from a local brand to a foreign one, generating more revenue for the international trademark owner.<sup>52</sup> Furthermore, the capital expended and the advertising skill employed by the international trademark owner commonly surpasses that of the domestic producer.<sup>53</sup> This advantage enables foreign trademarked goods to usurp consumer demand for local products, thereby preventing the domestic industry from competing effectively.<sup>54</sup>

The temptation of foreign trademark owners to manipulate a trademark right through the use of persuasive advertising is to some degree a cause of the present international trademark crisis.<sup>55</sup>

to the appeal of persuasive advertising. *Id.*

50. E. KITCH & H. PERLMAN, *supra* note 39, at 409.

51. Ball, *supra* note 5, at 162. "Persuasive advertising . . . diminishes, warps or overwhelms buyer knowledge with exhortation. This type of advertising . . . is particularly undesirable in developing countries [where] purchasers are unsophisticated in their perceptions of advertising appeals [and become] programmed to demand items such as cosmetics, soda pop, instant coffee and electric razors in preference to basic necessities." *Id.* Foreign trademarks are commonly seen in the marketplace by the residents of developing countries such as Mexico. See Vargas, *Major Innovations Regarding Trade & Service Marks in the Newly Revised Law on Inventions & Marks - A Mexican Perspective*, 66 TRADEMARK REP. 188-89 (1976). "Mexico has three million jobless and four million unemployed" and this population includes the uneducated and malnourished. *Id.* at 180. A developing country that has advanced economically may suffer due to trademark manipulation by foreign trademark owners. Ball, *supra* note 5, at 161. However, advertising itself is not the problem since local industry can just as easily use it in a manipulative fashion. See *id.* But, the marketing function does assist the trademark owner in developing and maintaining his market. Shanahan, *supra* note 26, at 241.

52. Note, *supra* note 4, at 183. Consumers preference can be slanted through effective advertising by foreign trademark owners. Often, domestic and foreign manufacturers enter contractual relations that require a certain amount of capital expenditure on advertising. Because a trademark renders a product more recognizable, especially in developing countries where literacy levels are low, foreign firms may attempt to saturate the market with their products bearing their trademark thereby increasing profits. See *id.*

53. O'Brien, *supra* note 24, at 93. The power of the "brand-name/advertising/habit nexus" is real and is created by the trademark owner, the party that really profits from licensing agreements. *Id.* at 94.

54. Ball, *supra* note 5, at 161. "Local authorities often fear that the increased utilization of foreign trademarks will become an insurmountable obstacle to achieving any degree of economic self-sufficiency." *Id.* Many foreign firms that operate in developing countries are "multi-product concerns." O'Brien, *supra* note 24, at 95. These companies use the spillover effect to capture greater amounts of the market. See *id.* Because of this phenomenon expansion costs for foreign firms are reduced and their market position strengthened. *Id.*

55. Shanahan, *supra* note 26, at 241, 248.

By marketing a foreign good and advertising it in a developing country, the local population becomes culturally and commercially attached to products bearing a foreign trademark.<sup>56</sup> The foreign trademark becomes a hindrance to local development because consumers will tend to buy only products bearing the foreign trademark.<sup>57</sup> Lacking consumer recognition of its products and being unable to compete effectively, domestic manufactures may vanish.<sup>58</sup> Thus, local industry never gets a chance to evolve in developing countries.<sup>59</sup> Ultimately, the local consumer suffers because the selection of products available to the public is reduced.<sup>60</sup>

Developing countries resent the reliance local consumers have on foreign trademarked goods and view such reliance as an obstacle to their economic and industrial development.<sup>61</sup> As a result, developing countries have come to perceive the trademark system as flawed, and of limited value.<sup>62</sup>

Manipulation of a trademark right through the use of persuasive advertising, however, does not represent the sole cause of the trademark system's deterioration in developing countries.<sup>63</sup> When a foreign manufacturer decides to conduct business in a developing country, he usually enters into a licensing agreement with a domes-

---

56. *UNCTAD Report*, *supra* note 8, para. 41. Extensive advertising induces misguided brand loyalty and allows a trademark owner to achieve an entrenched position in the marketplace. Consumers prefer brand name goods to competing products of comparable quality at lower prices. Shanahan, *supra* note 26, at 248.

57. *See supra* notes 46-51 and accompanying text. Consumers of a developing country are biased toward foreign images. The use of goodwill apparently becomes abused and the trademark supports technology ill-suited to the local resources, or creates a demand for goods only the rich can afford, or replaces satisfactory local products. Note, *supra* note 4, at 180.

Another problem exists in the creation of a trademark right. Basically, trademark rights either accrue through use of the trademark or by whoever registers the trademark first. O'Brien, *supra* note 24, at 101. The right once established can be maintained indefinitely. *See id.* at 100. Once a right is created little action may be needed to keep the trademark alive, and therefore a trademark becomes captive by its owner though not used. *Id.*

A third hindrance to economic development in Third World countries exists when foreign trademark owners use their trademark's recognition in connection with inferior goods to be marketed exclusively in developing countries. *See The Trademark and its Function in the Control of Commercialization*, 65 TRADEMARK REP. 83 (1975). This deceptive practice is profitable in developing countries where low quality products abound. *Id.*

58. *See id.*

59. *Id.*

60. *Id.* In Mexico, Coca-Cola captured the majority of the local soft drink market through the use of superior business resources. The Mexican industry and consumer is now dependent on a foreign trademark. Note, *supra* note 4, at 179.

61. *See Ball*, *supra* note 5, at 172.

62. *Id.*

63. Note, *supra* note 4, at 179.



tic producer.<sup>64</sup> Through the agreement, the foreign manufacturer provides the technology, skill and capital to a domestic producer who uses these resources to begin the manufacturing process.<sup>65</sup> In return for the acquisition of technology, the domestic producer is subject to certain requirements contained in the licensing agreement.<sup>66</sup> The agreement usually requires that the domestic producer use the foreign manufacturer's trademark.<sup>67</sup> The domestic company must license out the use of the foreign manufacturer's trademark at a certain fee.<sup>68</sup> This requirement enables the foreign manufacturer to receive an adequate return on his investment.<sup>69</sup>

Restrictions in the trademark licensing agreement are a significant cause for the decline of the trademark system.<sup>70</sup> The agreement may limit the options available to the local licensee.<sup>71</sup> For instance, the contract may prevent the domestic manufacturer from producing his own product with the use of the foreign trademark, thereby limiting the long term financial reward associated with the trademark.<sup>72</sup> Moreover, in certain situations the local producer may create a profitable market, having taken the initial risk, and the foreign trademark owner will not renew the licensing agreement.<sup>73</sup> Indeed, the foreign trademark owner may attempt to take over the local industry or capture the goodwill connected with the trademark built up through the efforts of the domestic company.<sup>74</sup> Even if the local company later attempts to compete utilizing the technology originally made available by the foreign manu-

64. *Id.* at 189.

65. *Id.* at 189-90. "The licensor supplies technology and opens a plant in the developing state so that the domestic licensee can manufacturer the product in either the same or similar way." *Id.* A licensing agreement insures that the quality of the product manufactured will be similar to the quality of the licensors' products. *Id.*

66. *Id.* at 195.

67. *Id.* at 178-79.

68. *Id.* The trademark licensing agreement authorizes the use of the trademark owner's trademark by a licensee. *Id.*

69. *Id.* at 195.

70. Ball, *supra* note 5, at 163.

71. *Id.* The local manufacturer will likely have to make other concessions including royalty payments, territorial restrictions and price maintenance in payments, territorial restrictions and price maintenance in consideration for the use of an established trademark. Howarth, *supra* note 25, at 234. Export limitations may also be imposed on the licensee. These limitations create "intense resentment" among developing nations because they hope to participate in international commerce. *Id.*

72. O'Brien, *supra* note 24, at 93.

73. Ball, *supra* note 5, at 163.

74. *Id.* "The more successful the domestic entrepreneur, the more vulnerable he becomes." O'Brien, *supra* note 24, at 93.

facturer, the local enterprise may fail, having previously established a sizable market and generated "goodwill" that now benefits the foreign trademark owner.<sup>75</sup> This is especially true in developing countries where literacy is low and the population relies on symbols to differentiate and choose between products they prefer.<sup>76</sup> While the local licensee acquires technology and the use of a recognized trademark, the long term economic benefits may remain with the foreign owner who receives the product recognition from his trademark and eventually retains market control.<sup>77</sup>

Developing countries find the exploitation of their consumers and manufacturers disdainful and, as detailed later in this Note, have responded by attempting to abrogate or modify the trademark system.<sup>78</sup> However, it is apparent that it is not the creation of a trademark right alone that has generated the present conflict over the value and usefulness of the trademark.<sup>79</sup> Rather, the era that spawned trademark law produced a system ill adapted to the present social and economic situations found in developing countries.<sup>80</sup>

Misuse of a trademark right manipulated in order to reap excessive profits,<sup>81</sup> or to maintain consumer preference for products bearing a foreign trademark,<sup>82</sup> exemplifies defects in the mechanics of the trademark system. Despite these injustices, the trademark, when used in a reasonable and fair manner, functions admirably as a method of protecting both the consumer and manufacturer.<sup>83</sup>

---

75. Ball, *supra* note 5, at 165.

76. *Id.* at 161.

77. *The Trademark & its Function in the Control of Commercialization*, 65 TRADE-MARK REP. 83-84 (1975). "The power of multinational corporations in [developing countries is] often considerable and abuses of such power [have] occurred." *UNCTAD Report, supra* note 8, para. 30.

78. See *infra* notes 144-47 and accompanying text.

79. See Shanahan, *supra* note 26, at 248. Some authorities proffer that the manipulation by persuasive advertising and inequitable conditions in licensing agreements have almost nothing to do with the trademark itself. *Id.* Restrictions in trademark licensing agreements are extraneous to the essence of the trademark right, and advertising abuses relate more to the regulation of advertising standards and to questions of consumer protection than to trademark law. *Id.* at 247.

80. The system, after all, was fashioned by developed countries to suit their objectives, not those of developing countries. O'Brien, *supra* note 24, at 104. At the system's origination, developed countries had homogeneous economic interests, and therefore it was "logical to invent an international code of conduct," especially in the area of trademark regulation, because their use was often international in scope. Ball, *supra* note 5, at 170.

81. See *supra* notes 55-60 and accompanying text.

82. See *supra* notes 70-77 and accompanying text.

83. See Shanahan, *supra* note 26, at 247-48; see also *infra* note 143.

How then are developing countries to safeguard their own interests and benefit from the use of foreign trademarks?

### III. EXISTING INTERNATIONAL AGREEMENTS CONCERNING TRADEMARKS

Developing countries have responded by relying on an assortment of devices to address the problems that exist between themselves and foreign trademark owners.<sup>84</sup> Increasingly, developing countries have turned to international trademark agreements as a means by which to redress grievances in the international trademark community.<sup>85</sup> However, they have not been the panacea that developing countries had hoped would remedy the problems associated with foreign trademark use in their countries.<sup>86</sup>

#### A. THE PARIS CONVENTION

In 1882, the Paris Convention (Convention) was formulated for the protection of industrial property.<sup>87</sup> Today, it remains the dominant international agreement on trademark protection.<sup>88</sup> The agreement provides trademark protection through a system of international registration.<sup>89</sup> The purpose of the Convention is to establish national treatment for both foreign and domestically owned trademarks within a member State.<sup>90</sup> This sentiment is embodied

84. See Ball, *supra* note 5, at 164.

85. See *id.* at 169. For instance, in December of 1975, representatives of member states to the Paris Convention drafted a declaration containing the objectives for the revision of the Convention. This declaration accepted the principle of preferential treatment for developing countries and permits maximum liberty to every member country to adopt the legislation and administrative measures they believe are required to meet their political, social and economic development. Vargas, *supra* note 51, at 203.

86. Lanahan, *Trademarks in Mexico - A United States Perspective*, 66 TRADEMARK REP. 205, 217 (1976). The failure of the Paris Convention is exemplified by the declaration of 1975 being only a referendum and not a revision. As a result, the notion of preferential treatment was not incorporated into the Paris Convention. See *id.*; see also *supra* note 85. Both the representatives of the United States and United Kingdom stated "they could not bind their governments" to the declaration's objectives. *Id.*

87. Convention of Paris for the Protection of Industrial Property, Mar. 20, 1883 (revised at Brussels on Dec. 14, 1900; at Washington on June 2, 1911; at the Hague on Nov. 6, 1925; at London on June 2, 1934; at Lisbon on Oct. 31, 1958; and at Stockholm on July 14, 1967), reprinted in 3 DIGEST OF THE COMMERCIAL LAWS OF THE WORLD: PATENTS AND TRADEMARKS [hereinafter Paris Convention].

88. Note, *supra* note 4, at 185-86.

89. *Id.* The Paris Convention does not create an international trademark. Instead, it provides protection to the trademark owner upon registration of the trademark in the member State. *Id.*

90. See Paris Convention, *supra* note 87, art. 2. Pursuant to the Paris Convention

in Article two of the Convention, which states, "[n]ationals of any country of the Union shall enjoy in all other countries of the Union the advantages that their respective laws grant to nationals."<sup>91</sup> As a result, trademarks should enjoy equal treatment in member States.<sup>92</sup> However, developing countries are not on an equal footing economically or socially with industrialized nations.<sup>93</sup> This truth is essentially the source of the Convention's unsuitability as a preliminary instrument to protect developing countries against trademark abuse.<sup>94</sup> The Convention's uniform applicability among member States does not satisfactorily compensate developing countries for their inferior socio-economic status.<sup>95</sup> Since its inception, the Paris Convention has failed to give preferential treatment to developing countries to mitigate this discrepancy.<sup>96</sup>

Yet, the agreement is not structured without some benefit to developing countries. The agreement is advantageous to these countries in establishing an international trademark system that provides flexibility in its implementation, and an opportunity for participation in international commerce through a program of registration among nations throughout the world.<sup>97</sup> In most cases, for example, the member State is free to define the amount of protection to be given trademarks within its country, and the number of trademark applications a member State may submit is not limited.<sup>98</sup> These advantages may account for the growing interest de-

---

every member nation must provide national treatment to all trademarks used or registered within their country. National treatment requires that foreign and domestically owned trademarks be given equal protection under that State's indigenous law. *Id.*

91. *Id.*

92. Merchant, *The Paris Union - Decline & Fall?*, 68 TRADEMARK REP. 206 (1978). Any national of a member country can not be refused the advantages enjoyed by nationals in any of the other member countries. *Id.*

93. Note, *supra* note 4, at 185-86. Developed nations should recognize that developing countries have cultures and governments structured radically different from that of the industrialized western world. With these differences in mind, industries from developed nations should negotiate licensing agreements fairly to account for these discrepancies. See Ball, *supra* note 5, at 173.

94. O'Brien, *supra* note 24, at 107.

95. See *id.* However, in 1975, a referendum was issued that declared the Convention should be modified to provide preferential treatment. This action has not been ratified by the voting members. Lanahan, *supra* note 86, at 217. Developing countries have implemented legislation that restricts foreign trademark use in their countries in order to acquire preferential treatment not provided under the Convention. See *infra* notes 144-47.

96. O'Brien, *supra* note 24, at 109.

97. See Ball, *supra* note 5, at 170.

98. O'Brien, *supra* note 24, at 105 (citing G. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY 15 (1968)).

veloping countries have in the Convention.<sup>99</sup>

The apparent value of these advantages is reduced, however, by a suspicion that the agreement conceals obligations that developing countries find oppressive.<sup>100</sup> The agreement's most troublesome construction, in this regard, is its regulation of domestic trademark law through a series of articles.<sup>101</sup> While delegating law-making authority to member States, the agreement limits a nation's ability to undertake actions that would better serve its interests.<sup>102</sup> Article 19, for instance, states that "countries of the Union

99. Vargas, *supra* note 51, at 203.

100. Ball, *supra* note 5, at 170. While developing countries favor an opportunity for overseas registration and protection that the Paris Convention offers, they fear that companies from industrialized nations may submit an excessive number of trademark applications significantly decreasing the supply of trademarks available for local use. *Id.* This fear is justified in developing countries that have a small industrial base that is growing and that will emerge as the nation progresses economically. *Id.* Foreign producers may capture a large number of the usable trademarks before these local industries evolve. O'Brien, *supra* note 24, at 107. In addition, by adhering to the Paris Convention, Third World countries may be awash in foreign trademark applications that dramatically increase administrative processing costs. *Id.* These costs are not easily born by Third World countries. *Id.*

101. The relevant articles of the Paris Convention concerning trademarks include: Art. 2. *Equality of Treatment.* Nationals of any country of the Union shall enjoy in all the other countries of the Union the advantages that their respective laws grant to nationals.

Art. 4. *Right of Priority.* Any person or legal entity who has duly filed an application for a trademark in one of the countries of the Union enjoys a right of priority of six months for claiming similar rights in the other countries.

Art. 5. *Use of Trademark.* If, in any country of the Union, use of registered mark is compulsory, the registration may be cancelled only after a reasonable period, and then only if the person concerned does not justify his inaction.

Art. 6. *Independence of Trademarks.* A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union.

Art. 7. *Nature of Trademark Goods.* The nature of the goods to which a trademark is to be applied shall in no case form an obstacle to the registration of the mark.

Art. 10. *Unfair Competition.* Countries of the Union are bound to assure to their nationals effective protection against unfair competition contrary to honest practices in industrial or commercial matters.

Art. 12. *Special National Industrial Property Services.* Each country of the Union undertakes to establish a special industrial property service.

Art. 19. *Special Agreements.* Countries of the Union reserve the right to make separately between themselves special agreements for the protection of industrial property, insofar as these agreements do not contravene the provisions of the Paris Convention.

Paris Convention, *supra* note 87; see also O'Brien, *supra* note 24, at 106 (citing the Paris Convention).

102. O'Brien, *supra* note 24, at 107-08. The Convention has been criticized for its vagueness and lack of guidance in how to implement its provisions. *Id.* For example, no precise definition of "use" in article five exists. Developing countries may be unable to identify a trademark that is not in use within the parameters of the Convention. *Id.*

reserve the right to make separately between themselves special agreements for the protection of industrial property, in so far as these agreements do not contravene the provisions of the Convention."<sup>103</sup> This article prevents developing countries from supplementing the inadequate protection provided under the Convention.<sup>104</sup> It prohibits a developing country from enacting a law which grants preferential treatment to domestic trademark owners in order to promote equality between foreign and domestic trademarks.<sup>105</sup> Such a law is discriminatory, and is contrary to the Convention's stated goal of national treatment.<sup>106</sup>

Article four states that "[a]ny person who has duly filed an application for a trademark, shall enjoy, for the purpose of filing in other countries, a right of priority."<sup>107</sup> Like article 19, this article interferes with the internal affairs of a developing country's government.<sup>108</sup> Many developing countries restrict their trade connections with other states for political reasons.<sup>109</sup> By automatically granting certain states a right of priority, the Convention violates a developing country's internal politics.<sup>110</sup> The Convention's articles may bind developing countries to obligations that are not favorable to their economic and political interests.<sup>111</sup>

The process by which the Convention operates may also unfairly prejudice developing countries.<sup>112</sup> An amendment or revision to the Convention can only be incorporated by a unanimous vote of the member States.<sup>113</sup> As a result, the possibility for change or

---

Linking requirements enacted by several developing states, that are applicable only to foreign licensors, conflict with the concept of national treatment. Lanahan, *supra* note 86, at 217-18. Developing countries continue to encourage local companies over foreign ones, and are not deterred by obligations under the Paris Convention. *Id.*

103. See Paris Convention, *supra* note 87, art. 19.

104. Ball, *supra* note 5, at 169. Some actions by developing states united by accords separate from the Convention to combat perceived injustices in present trademark systems violate Article 19 of the Paris Convention. *Id.* The Andean Pact is in most part prohibited by the Convention. See *infra* notes 194-97 and accompanying text.

105. See Ball, *supra* note 5, at 171 n.53.

106. *Id.*

107. See Paris Convention, *supra* note 87, art. 4.

108. Merchant, *supra* note 92, at 207, 210.

109. *Id.* at 207. For example, it is known that the Arab States boycott Israel. *Id.*

110. *Id.*

111. *Id.* Developing countries, however, apparently do not change their internal policies to comply with the Convention. By ignoring Convention mandates developing countries may facilitate the gradual decline of the Convention. *Id.* Many African countries refuse to entertain applications from natural or legal persons from South Africa, for the registration of their trademarks. This action violates Article two of the Convention. *Id.*

112. Ball, *supra* note 5, at 171.

113. *Id.*

modification favorable to developing countries is remote.<sup>114</sup>

At present, the objectives of the agreement, its construction, and its mode of operation do not adequately serve the needs of Third World countries.<sup>115</sup> National treatment of trademarks in member States is an objective of little value to developing countries,<sup>116</sup> and the Convention's articles may actually contribute to the international trademark crisis by committing developing countries to obligations not in their interests.<sup>117</sup> The advantages offered by the Convention may not outweigh the potential disadvantages a developing country may face if it is locked within the limitations of the Convention.<sup>118</sup>

### B. THE MADRID UNION

The Madrid Union, formed in 1891, is a complement to the Paris Convention.<sup>119</sup> Like the Paris Convention, its purpose is to promote equality among member States.<sup>120</sup> Unlike the Paris Convention, it allows for the international registration of an approved trademark through a single filing with the International Bureau.<sup>121</sup> The agreement eliminates the need for a trademark owner to submit an application to every member State in order to receive protection under the prevailing law of the member State.<sup>122</sup> The agreement designates a renewal period of 20 years.<sup>123</sup> The effect of these requirements is the creation of an international trademark.<sup>124</sup>

As a result, the Madrid Union has been received with indifference among developing countries, and few are signatories.<sup>125</sup> Indus-

114. O'Brien, *supra* note 24, at 102-09.

115. *Id.*

116. *See supra* notes 93-96.

117. O'Brien, *supra* note 24, at 110.

118. *Id.*

119. Arrangement Respecting the International Registration of Trademarks, Apr. 14, 1891 (revised at Brussels on Dec. 14, 1900; at Washington on June 2, 1911; at the Hague on Nov. 6, 1925; at London on June 2, 1934; and at Nice on June 15, 1957), reprinted in 3 DIGEST OF COMMERCIAL LAWS OF THE WORLD: PATENTS AND TRADEMARKS [hereinafter Madrid Union].

120. *Id.* "An application having obtained a national trademark in his country of origin may, in all the other countries that are parties to the Union, simultaneously secure protection for his trademark." *Id.*

121. *Id.* The International Bureau is an agency that administers the daily operation of the Union. It processes applications for international trademark status. *See id.*

122. *Id.* "An international trademark automatically creates a pack of identical trademarks in all the different countries of the Union." *Id.*

123. *Id.* arts. 6, 7. Renewal is granted upon the payment of a fixed fee. *Id.*

124. Note, *supra* note 4, at 187.

125. *Id.*

trialized nations have welcomed the agreement because it strengthens an international trademark owner's proprietary right by augmenting the number of states in which his right can be enforced.<sup>126</sup> For developing countries with few "multiple registrations, the gains under scheme are very small compared to the costs."<sup>127</sup> The Madrid Union has not been embraced by the international trademark community, and as of 1984, only 25 nations had joined the agreement.<sup>128</sup>

#### IV. REACTION BY THIRD WORLD COUNTRIES TO AN IMPERFECT TRADEMARK SYSTEM

In response to invidious licensing agreements that exploit domestic production and international trademark agreements that are inadequately designed to protect developing nations, the United Nations Conference on Trade and Development (UNCTAD) proposed several measures to resolve the international trademark crisis.<sup>129</sup> These measures include: (1) the abolition of trademark protection in certain sectors; (2) the compulsory licensing of trademarks;<sup>130</sup> (3) the regulation of certain trademark related matters (banning, reducing or taxing persuasive advertising);<sup>131</sup> (4) quality identification through trademark legislation; and (5) quality identification independent of the trademark system.<sup>132</sup> The latter two proposals function as an alternative to the present trade-

---

126. Allen, *A Report on the Madrid Agreement*, 56 TRADEMARK REP. 290, 292 (1966). The Madrid Union members consist of predominantly European countries, most notably France, Germany, Spain and Italy. *Id.* at 302. The United States does not currently participate in the agreement, while the Soviet Union has joined. See Madrid Union, *supra* note 119.

127. O'Brien, *supra* note 24, at 110.

128. See Madrid Union, *supra* note 119; see also Note, *supra* note 4, at 187. In 1973, the Trademark Registration Treaty was formulated. This third international agreement was undertaken to provide for the registration of an international trademark. The treaty has not been enacted because a prerequisite number of states did not accede to it. The treaty would not serve the interests of developing countries. *Id.* at 188.

129. Ball, *supra* note 5, at 164 n.22 (citing *The Role of the Trademark in Developing Countries: Report of the United Nations Conference on Trade and Development*, U.N. Doc. TD/B/C.6/A.C.3/3/Rev.1, paras. 258-80 (1979)).

130. *Id.* at 458. Compulsory licensing forces the owner of a trademark right to grant to any competitor a license to use its name and label. See Palladino, *Compulsory Licensing of a Trademark*, 26 BUFFALO L. REV. 457 (1977). Foreign trademark owners in Mexico strongly disfavor compulsory licensing. See Lanahan, *supra* note 86, at 219.

131. See Ball, *supra* note 5, at 164 n. 22. "For cultural, or even medical reasons, the marketing of certain kinds of products may be undesirable. But it is the products, not their trademarks, that are the problem." Shanahan, *supra* note 26, at 249.

132. Ball, *supra* note 5, at 164 n.22.



mark system.<sup>133</sup>

For several reasons neither of these two proposals may be practical.<sup>134</sup> First, they are likely to find disfavor among developing countries that can not afford the dramatic increases in administrative costs associated with an alternative method of intellectual property protection.<sup>135</sup> Second, developing countries lack the administrative capability to successfully implement a complex quality identification program.<sup>136</sup> Third, abrogating the present trademark system may be unwise because it provides protection to both the consumer and manufacturer that is inexpensive and effective.<sup>137</sup> Without offering any viable alternative to trademark protection, the first three UNCTAD proposals may cause foreign businesses to abandon operations in Third World countries,<sup>138</sup> or seek some other retaliatory measure.<sup>139</sup> These measures may escalate the seriousness of the conflict that exists between developing countries and international trademark owners, instead of resolving it.<sup>140</sup> "The draconian nature of these proposals and the likely upheaval in world markets" caused by their implementation suggests that they will not be observed.<sup>141</sup> Developing states must realize that replacing the trademark system is not in the best interests of the international trademark community,<sup>142</sup> rather it is a system that

133. Note, *supra* note 4, at 192-94.

134. *Id.*

135. Ball, *supra* note 5, at 170.

136. *See id.* The introduction of alternative protection systems by Third World countries has consistently resulted in an extreme disservice to its economy and the welfare of its citizens. *Id.* A generic-brand system in replacement of a trademark system has proved disastrous in developing countries, especially in generic labeling of medicines which lead to the marketing of ineffective or harmful medicines and blackmarket activity in pharmaceutical supplies. *Id.*

137. *See supra* notes 23-27 and accompanying text.

138. *See Note, supra* note 4, at 191. The first three UNCTAD proposals frustrate the basic purpose of the trademark. Manufacturers will lose the incentive to produce in countries that adopt these measures. *Id.*

139. *Id.* at 198-99. These measures will give foreign trademark owners the incentive to negotiate licensing agreements that maximize their gains and exploit the local population as they try to recover an adequate return on their investment. *Id.*

140. *See id.* at 192.

141. *See Ball, supra* note 5, at 164 n. 22; *see also Note, supra* note 4, at 192.

142. *See Note, supra* note 4, at 194. The trademark right itself has little to do with its manipulation. For instance, the harmful affect of persuasive advertising could be most easily cured by regulating the media rather than elimination of the trademark system. *Id.* at 201. However, the best remedy would be for international trademark owners to practice a degree of self-control when marketing in developing countries. *See UNCTAD Report, supra* note 8, para. 30. The trademark system should survive because: (1) it serves as a channel through which technology is provided to developing countries and plays a vital role in advancing their economies; (2) it effectively distinguishes products promoting quality; and (3) it identi-

must be mended to eliminate those actions which abuse it.<sup>143</sup>

Developing countries have undertaken less harsh measures in reaction to disparities in the trademark system.<sup>144</sup> In an attempt to balance the respective business positions of foreign and domestic companies, these countries have formulated legislation that provide preferential treatment for local industries.<sup>145</sup> Although these enactments may operate at the expense of foreign industries, they are not necessarily unfair.<sup>146</sup> The most common form of legislation are linking arrangements, generic labeling systems and regional treaties.<sup>147</sup>

### A. LINKING

Linking arrangements are commonly employed by Third World countries as a means of curing defects in the trademark system.<sup>148</sup> Linking is the use of a trademark owned by a local producer in conjunction with a trademark licensed from its foreign owner.<sup>149</sup> The purpose of linking is to permit the local trademark licensee to enjoy the advantages of the foreign trademark's good-

---

fies producers limiting deceptive marketing practices. See Note, *supra* note 4, at 191-92.

143. See *id.* "Like most rights the right in a trademark can be abused; but since mankind has found the trademark a useful device for some centuries, it is hardly likely that it has been reserved to present day critics to be the first [to] discover their iniquitous (as they say) character. The problem today is to adapt the trademark constructively to modern conditions and at the same time preserve its useful feature." Palladino, *supra* note 130, at 457 (citing H. NIMS, *THE LAW OF UNFAIR COMPETITION AND TRADEMARKS* § 190a, at 526 (4th ed. 1947)).

144. Ball, *supra* note 5, at 164. In developing countries where poverty, malnutrition and illiteracy are rampant restrictive governmental action seems justified by authorities "attempting to improve the welfare of their citizens." *Id.* at 160.

145. See *id.* at 164-65. In Argentina, for example, "the use of a trademark is voluntary, but it may become mandatory when required by the need of the public interest." MacDonell & MacDonell, *Argentina, Trademark Law & Practice*, in 1 *DIGEST OF COMMERCIAL LAWS OF THE WORLD: PATENTS AND TRADEMARKS*. This law functions to serve the interest of the developing country.

146. See Ball, *supra* note 5, at 165-69. The Brazilian linking law, for instance, only requires that a choice be made available to link the foreign and domestic trademarks. However, the Mexican linking law specifically requires linking, which will confiscate the licensors goodwill. The Mexican law has not been enforced. *Id.* at 165.

147. See *id.* at 165-69. "A variety of other restrictions have been imposed, including: (1) compulsory licensing of trademarks; (2) establishment of 'product marks' which require the registration of quality standards in connection with the mark; (3) a tax based upon the market value of the mark; (4) the right of a developing country's licensee to bring an action in its own name against infringers; and (5) cancellation of registrations for 'reasons of public interest.'" Gibson, *The New Game-Trademark Handicapping*, 69 *TRADEMARK REP.* 74-75 (1978).

148. See Ball, *supra* note 5, at 165.

149. *Id.*

will.<sup>150</sup> Presumably, the consumer will come to associate the particular goods involved with the licensee's trademark.<sup>151</sup> If the licensing agreement were to be terminated or expire the local enterprise could continue in business with the use of his own trademark without significant harm from the loss of the foreign trademark.<sup>152</sup>

In 1976, Mexico enacted the most austere linking law to date.<sup>153</sup> The Mexican law required all foreign trademarks to be joined with a Mexican trademark.<sup>154</sup> This requirement only applied to foreign trademarks.<sup>155</sup> The local trademark had to be specifically associated with the foreign trademark.<sup>156</sup> In 1975, Brazil issued a linking law which mandated that all licensing agreements involving trademarks provide a clause giving the licensee an option to use his own trademark jointly with that of the foreign trademark.<sup>157</sup> Unlike the Mexican law, the Brazilian law does not require mandatory linking, but only that the choice be made available.<sup>158</sup> Furthermore, the Brazilian law applies to both foreign and domestic licensing agreements.<sup>159</sup>

Linking arrangements, however, have met with stern opposition by international trademark owners,<sup>160</sup> because linking confiscates the goodwill associated with their trademarks by transferring it to the domestic manufacturer's trademark.<sup>161</sup> Goodwill is proba-

150. *Id.*

151. *Id.* The domestic firm in effect captures the goodwill of the foreign trademark.

152. *Id.*

153. *Id.*

154. *Id.* Article 127 of the Law on Inventions and Trademarks states, "All trademarks of foreign origin . . . which are [designed] to protect articles manufactured or produced in National Territory, must be used jointly with a trademark originally registered in Mexico." This requirement is mandatory. Law on Inventions and Trademarks, art. 127, *reprinted in 2 DIGEST OF COMMERCIAL LAWS OF THE WORLD: PATENTS AND TRADEMARKS.*

155. Ball, *supra* note 5, at 166.

156. A Mexican trademark is one that is originally registered in Mexico and owned by a Mexican citizen. Law on Inventions and Trademarks, art. 128, *reprinted in 2 DIGEST OF COMMERCIAL LAWS OF THE WORLD: PATENTS AND TRADEMARKS.*

157. Daniel, *Trademark Policy in Brazil under the Second Basic Plan for Scientific and Technological Development*, 66 TRADEMARK REP. 173, 175 (1976).

158. *Id.*

159. *Id.*

160. See Lanahan, *supra* note 86, at 205; see also Willis, *supra* note 1, at 185. Foreign trademark owners posit that the consumer will be deceived by assurances of quality that may be absent because quality control measures enforced by the foreign owner will have been removed upon expiration of the licensing agreement. The public will be purchasing a product they believe of a certain quality when in fact it is inferior. Ball, *supra* note 5, at 165-66.

161. See Ball, *supra* note 5, at 166.

bly one of the most valuable assets a company can own.<sup>162</sup> Foreign trademark owners, therefore, are reluctant to conduct business in countries that enact hostile legislation that attempts to appropriate their trademark's goodwill.<sup>163</sup> Indeed, some linking laws may prevent foreign enterprises from obtaining a reasonable return on their investment.<sup>164</sup> In 1974, Argentina passed a law that required all foreign trademark owners to assign their trademarks to the local licensee without compensation, or permit the local licensee to use his own trademark, phasing out the foreign trademark within five years.<sup>165</sup> Three years after its enactment this law was abruptly repealed.<sup>166</sup> Apparently, a tremendous exodus of foreign capital from Argentina had ensued following the laws enforcement.<sup>167</sup>

Ironically, by enacting linking laws to alleviate the economic burdens created by oppressive contracts, developing countries may deprive themselves of the very thing they desire-technology.<sup>168</sup> Nevertheless, linking continues to be attractive to developing countries as a plausible means to rectify the disparity in trademark protection afforded local producers, and as a method by which to acquire long term economic self-sufficiency.<sup>169</sup> Developing countries have also experimented with other remedies to alleviate defects in the trademark system.<sup>170</sup>

### B. GENERIC LABELING

One such experiment has been the use of a generic identification system.<sup>171</sup> A generic term is a "common descriptive name which has always identified a particular product."<sup>172</sup> Aspirin, Cola

---

162. Lanahan, *supra* note 86, at 213, 220; see also J. BROWN, INDUSTRIAL PROPERTY PROTECTION THROUGHOUT THE WORLD 8-9 (1936).

163. Ball, *supra* note 5, at 166. A corporation will look unfavorably on any enactment that attempts to confiscate its proprietary trademark right. *Id.*

164. Note, *supra* note 4, at 194, 198.

165. Ball, *supra* note 5, at 166.

166. *Id.*

167. *Id.*

168. *Id.* at 167. The Mexican Government, since enacting its linking law in 1974, has granted an extension on its implementation every year, presumably because of concerns of similar results occurring as happened in Argentina. *Id.*

169. Note, *supra* note 4, at 200.

170. *Id.* at 193-94.

171. *Id.*

172. Kleinman, *Generic Trademarks: Types of Generic Usage of Trademarks*, in PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY, COURSE HANDBOOK SERIES No. 141, at 9, 11 (Dec. 17-18, 1981).

and Thermos are examples of generic terms.<sup>173</sup> To remedy perceived abuses of the trademark system, developing countries have enacted legislation that requires products of a "similar" kind be labeled with a generic term in place of the various manufacturers' trademark identifiers.<sup>174</sup> A generic term is devoid of any trademark significance; it can neither be registered nor protected by a manufacturer.<sup>175</sup> The effect of requiring manufacturers to use a generic labeling system is to completely deprive a foreign manufacturer of one of his most valuable assets, the goodwill associated with his trademark.<sup>176</sup>

The use of a generic system in developing countries has usually been employed in the pharmaceutical industry where health care concerns are paramount, and government regulatory control is desirable from a national perspective.<sup>177</sup> For example, the color of a medicine has an important therapeutic and identification value to a patient.<sup>178</sup> All that the patient desires is that the color medicine he associates with beneficial health effects be available and affordable.<sup>179</sup> He is unaware of the product's appearance having any trademark significance to its manufacturer.<sup>180</sup> Rising health care costs attributable to the trademark, encourage developing countries to enact a generic labeling system in order to protect the welfare of its citizens by providing medicines at a lower cost.<sup>181</sup>

Developing countries that have attempted to enforce generic legislation, however, have met with disappointing results.<sup>182</sup> In 1972, Pakistan introduced a law banning the use of trademarks in

173. *See id.*

174. *See Note, supra note 4, at 194.*

175. Kleinman, *supra note 172, at 11.*

176. *Id.*; *see also Brown, supra note 162, at 8-9.*

177. Ball, *supra note 5, at 167.* Often, developing countries fear foreign pharmaceutical firms use trademarks to discourage competition, limit the availability of drugs, or drive up prices. *Id.* In the pharmaceutical field, social interest policies often collide with applicable trademark laws and business methods. Kleinman, *supra note 172, at 36.*

178. "The appearance of a drug may be highly significant to the user and his anxiety over any change in the shape of color of his regular regime may, in effect, make its appearance a truly functional aspect of the medication." Kleinman, *supra note 172, at 36.*

179. *Id.* It is only the physical appearance of the product that is of interest to the patient. *Id.*

180. *Id.* The minuscule print on capsules, or even a distinctive mark embossed on a color-on-color pill, is rarely prominent enough to come to the attention of the patient who swallows the product, trademark and all. *Id.*

181. *See id.* at 36. Rising costs of social welfare programs often lead to the implementation of a generic system because it lowers health care related costs. *Id.*

182. Ball, *supra note 5, at 167.*

the pharmaceutical industry.<sup>183</sup> The aftermath of this experiment was a catastrophe.<sup>184</sup> The marketplace became flooded with medicines bearing generic names, many of which had no therapeutic value,<sup>185</sup> and prices remained stable or increased.<sup>186</sup> In 1971, Sri Lanka enacted a similar law which resulted in like consequences.<sup>187</sup>

The abolition of trademarks in the pharmaceutical industries of Pakistan and Sri Lanka ended a viable method of distinguishing between products, and of identifying the quality associated with certain goods.<sup>188</sup> Moreover, by replacing the trademark identification system with a generic labeling system, a practical means was eliminated for locating a product's origin so that its manufacturer could be held accountable for any defects in its products.<sup>189</sup> These results demonstrate that the trademark is useful and should not be abandoned.<sup>190</sup> Yet, despite the apparent benefits related to the use of a trademark identification system and the severe economic destabilization resulting from the implementation of a generic labeling system, developing countries continue to devise laws that eliminate the use of trademarks in particular industries in an effort to carry out justified governmental concerns that the public not be exploited.<sup>191</sup> Not all abuses of the trademark system, however, have necessitated such a drastic measure as the introduction of an alternative identification system.<sup>192</sup>

### C. REGIONAL TREATIES

Another method developing countries have employed to alleviate the effects of inequitable licensing agreements and to lower the costs connected with administering the trademark system, has been to enter into limited regional trademark agreements.<sup>193</sup> The

---

183. *Id.*

184. *Id.*

185. *Id.*

186. *Id.* Apparently, a large black market developed for drugs that bore a brand name label. *Id.*

187. Note, *supra* note 4, at 194; see also Ball, *supra* note 5, at 167.

188. See Ball, *supra* note 5, at 167, 172. The generic labeling system resulted in harm to the consumer by creating high priced and ineffective drugs. *Id.* The trademark system protects the consumer. Shanahan, *supra* note 26, at 234. See generally Ball, *supra* note 5, at 167, 172.

189. See Ball, *supra* note 5, at 167, 172.

190. *Id.*

191. *Id.* at 167.

192. Note, *supra* note 4, at 194.

193. Ball, *supra* note 5, at 169 nn. 40-41. These agreements include the Afro-Malagray Union that was established in 1963. Its purpose is to reduce administration costs by the

most significant and inhibitive of these agreements is the Andean Pact.<sup>194</sup>

The Andean Pact enunciates several restrictions on the formation of licensing agreements between international trademark owners and firms located in member States.<sup>195</sup> The agreement provides for governmental approval of all licensing contracts and requires that approval be based on a variety of factors.<sup>196</sup> The agreement prohibits all licensing contracts that place any limitation upon the licensee's right to export, that fix the price of sale or resale of the product bearing the trademark, or that require the payment of royalties from the local subsidiary to its foreign parent company.<sup>197</sup>

These requirements may alarm many foreign trademark owners, because their enforcement may result in insufficient remuneration of the capital originally invested by foreign manufacturers in countries that are members of this Pact.<sup>198</sup> As with linking laws, foreign businesses will be induced to select other regions in which to invest their knowledge, skill and capital that are more favorable to their business interests.<sup>199</sup>

The efforts of Third World countries to ameliorate abuses in the trademark system by the use of linking arrangements, generic labeling and regional treaties has only been partially successful.<sup>200</sup>

formation of a central trademark office. Today the Union is composed of Cameroon, Central African Republic, Chad, Congo Republic, Dahaney, Gabon, Ivory Coast, Mauritania, Niger, Sengal, Togo and Upper Volta. In 1975, the Central American Convention was formed. Its objective is to unify the requirements of trademark registration among member nations. Currently, the Convention is comprised of Costa Rica, Guatemala and Nicaragua. *Id.*

194. Willis, *supra* note 1, at 185. The Andean Pact was formed as a result of the Cartagena Agreement of 1969. Member countries include: Bolivia, Colombia, Ecuador, Peru, Venezuela, Brazil, India and North Korea. Note, *supra* note 4, at 194. The treaty's purpose is the economic integration of member nations and a mutually beneficial system for implementing trademark registration. Taylor & Bentata, *Trademark User Requirements in Latin America*, 74 TRADEMARK REP. 109 (1984).

195. Ladas, *Latin American Economic Integration & Industrial Property*, 62 TRADEMARK REP. 1 (1972); see also Willis, *supra* note 1, at 185.

196. See Ball, *supra* note 5, at 169 (citing the Commission of the Agreement of Cartagena, Dec. No. 24, art. 18, reprinted in 3 DIGEST OF COMMERCIAL LAWS OF THE WORLD (codified as the Andean Pact)). The government will evaluate the contract's "probable usefulness, the price of the goods which will incorporate the technology, or other specific forms of evaluation of the effects of the imported technology." *Id.*

197. *Id.*

198. Note, *supra* note 4, at 198.

199. Willis, *supra* note 1, at 185. "Today business executives of most U.S. companies have little or no incentive to consider new licenses of trademarks" in countries that are members of the Andean Pact. *Id.*

200. Ball, *supra* note 5, at 172. Many foreign trademarks are jeopardized by linking arrangements, generic labeling and regional treaties, but no real benefit accrues to the local economy or the public. *Id.*

Their actions, however, have focused world attention on the resentment developing countries feel toward the reliance domestic consumers have on foreign trademarks and the exploitation of domestic industries.<sup>201</sup> American companies operating in developing countries have encountered this resentment and have been subjected to the legislative requirements many Third World countries have enacted to end these abuses.<sup>202</sup>

### V. A UNITED STATES RESPONSE

In response, the U.S. Government proposed several bills to improve intellectual property protection and market access for American companies operating abroad.<sup>203</sup> The most relevant of these proposals is the Anti-Piracy and Market Access Act.<sup>204</sup> Its purpose is essentially threefold: (1) to develop an overall strategy to open international markets to U.S. companies that rely on intellectual property protection; (2) to use all appropriate multilateral institutions to improve the substantive norms and standards for intellectual property protection; and (3) to eliminate a broad variety of unfair and discriminatory trade practices now imposed on U.S. companies that rely on intellectual property protection.<sup>205</sup>

This act, though based on findings that have some merit,<sup>206</sup>

---

201. *Id.*

202. Willis, *supra* note 1, at 184.

203. See N.Y. Times, Apr. 8, 1986, at 7, col. 1; see also *supra* note 9. The aim of these proposals are to cure deficiencies in intellectual property protections (chiefly patent infringement), and prevent the enforcement of barriers, acts, policies, and practices by major U.S. trading partners in the Third World. *Id.* However, they apply to trademark restrictions imposed by developing countries as well. This paper focuses only on the trademark protection embodied in the acts. This paper examines S.335 most closely. S. 2435, proposed in 1986, was substantially the same in form and function, and H.R.4800 created a negotiating process to improve the protection of U.S. companies' intellectual property rights whereby (1) the U.S. Trade Representative is required to identify priority foreign countries that deny fair and equitable market access to such products, and (2) the President shall direct the U.S. Trade Representative to negotiate for improved market access to such countries. If the negotiations are not successful within two years, the President shall take such action as he deems appropriate. See H.R. 4800, 99th Cong., 2d Sess. (1986). This process is similar to that found in S. 2435.

204. Anti-Piracy & Market Access Act, S. 335, 100th Cong., 1st Sess. (1987). The act states that protecting the interests of U.S. firms that rely on intellectual property protections "are major elements of United States foreign economic policy that have significant commercial importance." *Id.* at 3.

205. *Id.* at 3-4.

206. See *id.* at 2. This act is based on findings that inadequate intellectual property protections lead to the loss of export markets, that existing international agreements do not sufficiently protect U.S. interests, and, that foreign barriers including restrictions and conditions placed on investment or licensing, and various other regulations on business operations



may exacerbate an international crisis by fueling the animosity developing countries feel toward American companies operating within their borders.<sup>207</sup> A disagreeable reaction is especially likely because restrictive barriers enacted by developing countries are often based upon legitimate fears and valid concerns over the welfare of their citizens, as well as their nations' troubled economies.<sup>208</sup>

The Anti-Piracy and Market Access Act consists of four separate actions to increase international trademark protection and open foreign markets to American firms that rely on trademark protection.<sup>209</sup> The first action requires the U.S. Trade representative to analyze trademark barriers that are present in foreign countries and the extent to which their markets are inaccessible to American firms.<sup>210</sup> This analysis is commenced when the Trade Representative composes a list of all countries that deny U.S. firms adequate and effective trademark protection.<sup>211</sup> From this list, foreign countries are assigned priorities.<sup>212</sup> A foreign country is assigned priority status if it constructs barriers that are particularly onerous in nature or that prevent fair and equitable access to a market of significant size.<sup>213</sup> These conditions appear to give the

---

seriously impede the ability of U.S. companies that rely on intellectual property protection to operate overseas. *Id.* The decline of the trademark system in developing countries is not solely the result of abuses by international trademark owners. Willis, *supra* note 1, at 184. The inadequate protection provided American companies is not justified from an economic or social stand point in all cases. *Id.* "The erosion of the protection of international trademarks to the point of destruction or elimination in a country is at best only a diversionary vendetta, delaying the taking of effective measures to deal with real causes which are lack of infrastructure to support technological and economic development, lack of stable free-market incentives, lack of education, lack of political stability, and downright lethargy." *Id.*

These claims may be true in some cases, but their resolution may not lie in pursuing a policy like that presently advocated by the U.S. Government. However, some drastic situations may call for the implementation of drastic measures. One such measure would be for an international trademark owner to boycott contractual arrangements with businesses located in developing countries that exploit the international trademark owner. *See infra* notes 280-81 and accompanying text.

207. *See* N.Y. Times, June 21, 1987, at 5, col. 2. International corporations affiliated with American companies are worried about the repercussions they will face in consequence of a U.S. bill that advocates retaliation. *Id.*

208. Legislative actions undertaken by developing countries are often the result of past experience. *See supra* notes 41-52. These countries enact such laws to resolve defects in the trademark system, and remedy problems of unequal bargaining positions that sap Third World industries of their resources and chances for economic development. *Id.*

209. *See* Anti-Piracy & Market Access Act, S. 335, 100th Cong., 1st Sess. 4-10 (1987).

210. *Id.* at 4-5, 10-12.

211. *Id.*

212. *Id.*

213. *Id.* Three additional factors are taken into account by the Trade Representative

act's enforcement a degree of flexibility and make its impact on developing countries less threatening, either because these countries often have small markets or their enactments could be construed as less onerous.<sup>214</sup> However, a favorable characterization is unlikely.<sup>215</sup>

The second action requires the President of the United States to enter into negotiations with foreign countries given priority status, in order to establish adequate and effective intellectual property protection for U.S. firms conducting business in these countries.<sup>216</sup> The objective of this negotiation process is to improve American business interests abroad.<sup>217</sup> This section of the act implements this objective by permitting the President to enter into agreements that reduce or eliminate foreign trademark barriers.<sup>218</sup> These barriers, however, are often in place to prevent the exploitation of Third World countries by industrialized nations.<sup>219</sup> Thus, the objectives of this negotiation process provide little incentive for the attainment of a negotiated agreement that is mutually

---

in determining whether a foreign country market is open to U.S. businesses that rely on trademark protections. They include: (1) whether any restrictions or conditions have been placed on investment, or on the establishment of U.S. companies within the foreign countries; (2) whether any licensing or certification restrictions exist limiting U.S. firms from "function[ing] freely in the markets of those countries;" and (3) whether U.S. companies "suffer from discriminatory of monopolistic practices" within these countries. *Id.* at 12. In general, these factors apply to copyright and patent problems. However, they may be applicable to trademark problems.

These factors clearly forbid many enactments proposed by developing countries. Mexico's linking requirement would be prohibited by these criteria because they apply only to foreign firms, and are therefore discriminatory. *See supra* notes 127-35.

214. Market size is not defined by the act. *See Anti-Piracy & Market Access Act*, S. 335, 100th Cong., 1st Sess. (1987). In 1972, U.S. firms accounted for more than two-thirds of all trademarks registered in developing countries. O'Brien, *supra* note 24, at 114. The concentration of foreign ownership of trademarks in a developing country could be defined as sizable.

215. Any trademark barrier enforced by a developing country is potentially burdensome or oppressive to certain U.S. firms. *See Note, supra* note 4, at 198. Onerous is not defined by the act, but since the act's objective is to eliminate any practices or policies that hinders certain U.S. business interests abroad, this factor hardly serves developing countries whose actions are justified. *See The Anti-Piracy & Market Access Act*, S. 335, 100th Cong., 1st Sess. (1987).

216. *See The Anti-Piracy & Market Access Act*, S. 335, 100th Cong., 1st Sess. (1987). The act gives the President authority to enter into agreements with foreign countries to harmonize, reduce, eliminate or prohibit restrictions, fees, or other acts that distort trade. *Id.* These sections of the act allows the President some leeway in negotiating trademark protections for U.S. firms.

217. *Id.* at 9. For instance, the act permits the President to include any U.S. concession which might achieve U.S. objectives. *Id.* at 10.

218. *Id.* at 14.

219. *See T. McCARTHY, supra* note 30, at 57, 95; *Note, supra* note 4, at 182-83.

beneficial.<sup>220</sup>

Next, if the President is unable to enter into a negotiated agreement, the act requires that "remedies" be applied to priority countries as a means of insuring that the act's objectives are reached.<sup>221</sup> The "remedies" include termination of any trade agreement entered into with a priority state, and an increase in any duty on any article imported to the United States from that foreign country.<sup>222</sup> These remedies are, in fact, penalties that may severely hamper developing countries that rely on the United States as a trading partner, either by limiting their ability to compete in the international market or by destabilizing their fragile economies.<sup>223</sup> Finally, the fourth action merely provides for "the presentation of views by interested parties."<sup>224</sup> It does not insure representation of a party's opinion in the resulting agreement.<sup>225</sup>

These four actions required by the act demonstrate that protecting U.S. business interests while impairing the economic interests of developing countries is the sole concern of this legislation.<sup>226</sup> The U.S. Government has decreed that any country which does not "provide adequate and effective means under its laws," allowing U.S. firms to secure, exercise and enforce 'exclusive' rights of their trademarks may be subject to severe trade and monetary

220. See *Proposed Foreign Trade Legislation*, *supra* note 18, at 215.

221. See Anti-Piracy & Market Access Act, S. 335, 100th Cong., 1st Sess. 8, 10 (1987). The remedies include the following actions to fully achieve the objectives of this act:

- (1) terminate, withdraw, or suspend any portion of any trade agreement entered into with such foreign country or instrumentality.
- (2) proclaim an increase in, or the imposition of, any duty on any article imported from such foreign country.
- (3) proclaim a tariff-rate quota on any article imported from such foreign country.
- (4) proclaim the modification or imposition of any quantitative restriction on the importation of any article from such foreign country.
- (5) suspend, in whole or in part, benefits accorded articles from such foreign countries.
- (6) take any other action pursuant to subsection (b) or (c) of section 301 of the Trade Act of 1974.

*Id.* The remedies can be used to achieve an increase in market access or an improvement in trademark protection for U. S. firms operating abroad. *Id.*

222. See *id.*

223. See N.Y. Times, Apr. 8, 1986, at 7, col. 1. Often these countries are attempting to provide the best trademark protection for all businesses operating within their borders. These countries may lack the capital or skill needed to administer sufficient protections. The U.S. Government's ability to apply harsh penalties clearly puts American businesses in an unfair and superior bargaining position. See *id.*

224. See The Anti-Piracy & Market Access Act, S. 335, 100th Cong., 1st Sess. 9, 16 (1987).

225. *Id.*

226. See *supra* notes 209-25 and accompanying text.

sanctions.<sup>227</sup> Despite a small degree of flexibility in its implementation, the act diminishes the possibility of attaining a mutually acceptable negotiated agreement.<sup>228</sup> Developing countries are shackled by their lack of economic strength and the manner in which this act is to be executed.<sup>229</sup> These countries will be coerced into unilateral trademark agreements by the threat of sanctions if the objectives of the act are not voluntarily met.<sup>230</sup> Unfortunately, this act merely operates in the guise of a negotiating agreement.<sup>231</sup>

## VI. IMPLICATIONS

Clearly, a conflict exists between developing countries and industrialized nations over the protection to be given trademarks.<sup>232</sup> In an effort to combat the enactment of protective legislation by Third World countries, a pattern has emerged which neither resolves nor advances the mutual interests of both parties to the conflict.<sup>233</sup>

As Third World countries progress economically, they seek industrial self-reliance.<sup>234</sup> The foreign trademark that originally served as a conduit for the importation of much-needed technology becomes a source of resentment as foreign trademark owners retain "control" of the domestic market.<sup>235</sup> Furthermore, international trademark agreements are inadequate to protect the interests of developing countries, and often contribute to the creation of barriers that prevent these countries from securing their future development.<sup>236</sup> As a consequence, developing countries have introduced legislation designed to supplement existing protections and which serve national interests.<sup>237</sup>

---

227. See 'The Anti-Piracy & Market Access Act, S. 335, 100th Cong., 1st Sess. 8-10, 16 (1987). The act's philosophy is that unfair trade practices and barriers must be eliminated, and if they are not, sanctions should be implemented automatically. N.Y. Times, June 21, 1987, at 5, col. 2. Retaliation, reciprocity and toughness are the cornerstone of this act. *Id.*

228. *Id.*

229. *Id.*

230. *Id.*

231. *Id.*

232. Ball, *supra* note 5, at 160.

233. *Id.* at 172.

234. *Id.*

235. *Id.* The domestic consumer remains attracted to a product bearing the foreign trademark. The domestic producer has previously established goodwill among the local population that ultimately benefits the trademark's owner. See *supra* notes 29-39 and accompanying text.

236. See *supra* notes 94-128.

237. O'Brien, *supra* note 24, at 100; see also *supra* notes 144-47 and accompanying

The enforcement of this legislation has in most instances caused chaos in the marketplace,<sup>238</sup> retaliation by foreign manufacturers,<sup>239</sup> or the enactment of trade protectionist measures by industrialized nations.<sup>240</sup> In turn, these events have usually resulted in developing countries revoking their restrictive trademark legislation.<sup>241</sup> Thus, developing countries return to their original and unsatisfactory state of market inequality.<sup>242</sup> This pattern will continue to repeat itself, unless alternative solutions are sought or modifications met that resolve the abuses of the trademark system.<sup>243</sup>

The legislation proposed by the U.S. Government does not attempt to cure the manipulation of the trademark system in developing countries.<sup>244</sup> The legislation will continue the cycle of reactive and retaliatory actions which results in the trademark's traditional function being rendered useless.<sup>245</sup> This occurs because the acts are driven by a policy which parallels the very reasons for the plight of the trademark system in developing countries.<sup>246</sup> The proposals advocate a policy of self-interest and protectionism.<sup>247</sup> As developing countries have sought to protect the welfare of their citizens, the United States has reacted by promoting a policy which insures that American business interests abroad are pro-

---

text.

238. Note, *supra* note 4, at 180.

239. See *supra* notes 165-67.

240. See H.R. 4585, 99th Cong., 2d Sess. (1986). This bill, recently enacted into law, is designed to strengthen intellectual property protections for American firms overseas by preventing patent counterfeiting. It is protectionist in nature. See *id.*

241. See *supra* note 168.

242. Ball, *supra* note 5, at 172.

243. *Id.*

244. See *supra* notes 227-31.

245. See *supra* notes 231-37. Canadian Ambassador Allan E. Gotlieb described the result of enacting the proposed legislation as unleashing an "unpredictable and uncontrollable chain of events." N.Y. Times, June 21, 1987, at 5, col. 2.

246. See *supra* notes 233-43 and accompanying text. The international trademark crisis exists because foreign trademark owners abuse Third World economies and societies, and in response, developing countries implement legislation to protect their trademark related economic interests. Industrialized nations react by imposing sanctions. *Id.* These actions are motivated by self-interest, and not fair bargaining. *Id.* Likewise, the U.S. reaction is protectionistic and inequitable. N.Y. Times, June 21, 1987, at 5, col. 2. "Unfair trade practices generally turn out to be what the other fellow does, not what one does oneself." *Id.* (Sir Roy Denman, head of the Washington delegation of the Commission of the European Community, speaking on the trade bills recently proposed in the U.S. Congress).

247. Proposed Foreign Trade Legislation, *supra* note 18, at 215. The United States must "not isolate [itself] and its economy under a suffocating cover of protectionism." *Id.* (U.S. representative Jack F. Kemp on the floor of the U.S. House of Representatives during consideration of H.R.4800.)

ected, but at the social and economic expense of developing countries.<sup>248</sup>

The legislation proposed by the United States may cause developing countries to revoke local trademark restrictions,<sup>249</sup> restrictions which were necessitated in part because of the exploitation of their commercial resources by American companies.<sup>250</sup> Coercing developing countries into revoking such laws would place these countries in perilous economic positions.<sup>251</sup> It is unlikely that developing countries will endure economic coercion.<sup>252</sup> Rather than submit to unfavorable terms in a one-sided trademark agreement, it is more likely that developing countries will retaliate by enacting legislation that is equally protective, and suffer the invocation of trade penalties by the U.S. Government.<sup>253</sup>

Whether developing countries submit or retaliate, these countries will not view the trademark system as a means by which consumers and manufacturers are protected,<sup>254</sup> but as a tool that industrialized nations use to strengthen their own economies.<sup>255</sup> Such a belief will only escalate the resentment Third World countries feel toward foreign trademark owners and shatter the confidence these countries have in the value of the trademark system.<sup>256</sup> Consequently, if industrialized nations and developing countries implement policies independent of each other, designed to protect their own economic interests that facilitate the continued pattern of retaliatory actions by both sides, these policies will cause the decline of the trademark's usefulness in Third World countries.<sup>257</sup>

Therefore, a policy that advocates trademark protectionism will not cure the woes of American firms operating abroad.<sup>258</sup> Such a policy will only have an adverse impact on the trademark system.<sup>259</sup> Indeed, current administrative policy will not resolve the international trademark crisis, but enlarge it.<sup>260</sup> The crisis will be

---

248. *Id.*; see also *supra* notes 215-31 and accompanying text.

249. See *supra* notes 229-31.

250. See *supra* notes 41-52, 208 and accompanying text.

251. See N.Y. Times, Apr. 8, 1986, at 7, col. 1.

252. *Id.*

253. *Id.* These acts will "invite, encourage, and almost demand counter-retaliation by other nations." *Id.*

254. *Id.*

255. See *supra* notes 240-43 and accompanying text.

256. *Id.*

257. See *id.*; see also Ball, *supra* note 5, at 172.

258. See N.Y. Times, June 21, 1987, at 5, col. 2.

259. *Id.*

260. *Id.*

enlarged when developing countries respond to the threat of sanctions by enacting legislation which creates new barriers that prevent American companies fair and equitable access to their markets.<sup>261</sup> In order to protect the intellectual property interests of American firms overseas, the U.S. Government will have to pursue a policy which does not escalate the international trademark crisis.<sup>262</sup> A policy of compromise, understanding, and education will secure American business interests abroad, and the U.S. Government is in an ideal position to promote this policy.<sup>263</sup>

### VII. ALTERNATIVES

There are several measures that the U.S. government could promote to alleviate the present trademark crisis. They include a program of awareness,<sup>264</sup> the use of common sense in bargaining future licensing agreements with manufacturers from Third World countries,<sup>265</sup> and the acceptance of limited legislative action by developing countries that favor domestic enterprises.<sup>266</sup> These three measures could be applied to stabilize the international trademark crisis.<sup>267</sup>

---

261. See *Proposed Foreign Trade Legislation*, *supra* note 18, at 201.

262. See *id.* at 215. "The United States must break barriers [through] the spread of freedom and democratic capitalism" and not protectionist trademark legislation that would operate at the expense of Third World countries and cause economic retaliation against American firms operating abroad. *Id.*

263. *Id.* "[T]alk must be translated into trade liberalization, privatization, and the freeing up of markets." *Id.* Fair negotiation processes will alleviate the inadequate trademark protection afforded American firms in developing countries. See Willis, *supra* note 1, at 186. "A more equitable, moderate and cooperative approach towards balancing the objectives of [developing] countries and the proprietary rights of the international owners of trademarks" will settle the conflict. *Id.*

264. A program of educating developing countries to be aware of the benefits they receive from the trademark system is essential to its continued existence. Gibson, *supra* note 148, at 82.

265. *Id.* The international trademark owner can deal with the domestic industry and consumer more fairly to relieve local governments apprehension in the use of trademarks, without "destroy[ing] our free-market system." *Id.* at 75. Developing countries fear that international trademark owners will misuse their trademarks to retain market control and bleed their countries dry of valuable resources. See *supra* notes 55-62, 70-77 and accompanying text.

266. Reasonable measures implemented by developing countries would safeguard their local industries and future development. Ball, *supra* note 5, at 173. International trademark owners, however, fear that such actions may strip them of their proprietary rights, and therefore, they will resist such measures. See *supra* notes 138-45 and accompanying text. As a result, restrictive legislation enacted by developing countries must be limited in scope and acceptable to the international trademark community.

267. Gibson, *supra* note 148, at 83.

The first measure could be achieved by a program of education and training.<sup>268</sup> Developing countries will have to be convinced that the trademark system has positive social and economic value if used properly.<sup>269</sup> A program of education and training would allow a developing country to comprehend the value of the trademark and use it in the most expedient manner.<sup>270</sup> However, adequate means do not exist for making developing countries aware of the value of the trademark.<sup>271</sup> UNCTAD, while potentially an organization that has the capability to initiate a global program of education and training, has "consistently disclaimed the virtues of the trademark."<sup>272</sup>

Private industry may attempt to persuade Third World governments as best they can, but better results could be achieved by governmental programs undertaken by industrialized nations.<sup>273</sup> The U.S. government recently proposed the Technology Transfer & Intellectual Property Protection Act.<sup>274</sup> This act calls for the creation of programs to assist foreign countries in developing and implementing adequate intellectual property laws, and the establishment of an institution to train officials of developing nations "in both the management and technical skills" needed to enact and enforce trademark laws.<sup>275</sup> The purpose of this act and its implementation methods, however, are similar to those found in the Anti-Piracy and Market Access Act, and therefore its usefulness in ameliorating the present conflict is doubtful.<sup>276</sup> Nonetheless, its

---

268. Ball, *supra* note 5, at 172.

269. *Id.*

270. Shanahan, *supra* note 26, at 235. "One generally finds a lack of respect for industrial property rights in Third World countries." *Id.* Developing countries will have to be instructed and convinced as to the trademark's value. Ball, *supra* note 5, at 172.

271. Ball, *supra* note 5, at 173.

272. *Id.*

273. *See id.* Industrialized nations have the capital and administrative resources to pursue such goals. However, to date no government has initiated an adequate program. *Id.*

274. S. 2663, 99th Cong., 2d Sess. (1986). The focus of the act is on technology transfer, and applies to technological firms that rely on trademark protection. *Id.*

275. *Id.* at 10-12.

276. *Id.* at 2-5. The act's purpose is to promote U.S. business interests abroad and eliminate restrictive barriers. An unacceptable barrier would include a policy that requires approval by the foreign government as a condition to conducting business within the country. *Id.* The Andean Pact would therefore be prohibited by this act since it requires government approval of a licensing agreement. *See supra* notes 194-95.

The act's implementation involves methods such as negotiation and vigorous enforcement of U.S. trade laws to attain increased intellectual property protection for American firms. The likely consequence of implementing this act is increased hostility among Third World countries toward the United States. *Id.*



emphasis on education and training will serve as a valuable foundation for future enactments designed to remedy the trademark crisis through programs of awareness.<sup>277</sup>

The second measure involves a degree of self-control by the private sector.<sup>278</sup> American companies will need to employ common sense when dealing with Third World governments or industries, and not undertake actions offensive to these entities that might initiate retaliatory trademark restrictions.<sup>279</sup> Negotiating fair agreements may eliminate many of the causes these countries originally had for enforcing restrictive trademark legislation, and secure American business interests abroad.<sup>280</sup>

The third measure would allow developing countries to enact legislation to cure limited inequalities that continue to persist in the trademark system, without the threat of reprisals.<sup>281</sup> This legislation could require licensing agreements to:

- (1) contain a clause establishing the length of time necessary for a licensor to recover his investment;<sup>282</sup>
- (2) contain a provision for advance notification of termination of the licensing agreement in order to allow the licensee to phase out the foreign trademark and introduce one of his own;<sup>283</sup>
- (3) eliminate export restrictions;<sup>284</sup> and,
- (4) place a cap for a specified amount over which licensing fees

277. See Ball, *supra* note 5, at 173; see also UNCTAD Report, *supra* note 8, para. 75.

278. Note, *supra* note 4, at 201.

279. See Ball, *supra* note 5, at 165, 173. Common sense actions by foreign trademark owners include: (1) selecting products for sale in the local market that meet the needs of the country; (2) allocating advertising responsibility to the local licensee and limiting the use of persuasive advertising; (3) bargaining the terms of a licensing agreement fairly. Its terms should be clear and mutually beneficial; (4) using domestic resources and labor where possible and employing them in a non-exploitive manner; (5) allowing the local licensee to benefit from the goodwill of the foreign trademark; and, (6) if the developing state continues to unfairly restrict the owners trademark, withdraw from conducting business in that developing nation. Note, *supra* note 4, at 200-02; see also Willis, *supra* note 1, at 184.

Foreign companies should not allow the "cure" to become a vendetta by developing countries involving the wholesale confiscation or destruction of their trademarks. The "concepts of equity, moderation, and cooperation" should govern their contractual relationships. *Id.* "The behavior of multinational corporations [is] not always in line with government policies in host countries and that action [is] required to achieve harmony." UNCTAD Report, *supra* note 8, para. 31.

280. Willis, *supra* note 1, at 187. Once a foreign trademark owner has established a reputation for negotiating in good faith, and they meet developing countries part way, not only will the trademark conflict be reduced, but developing countries will listen when foreign trademark owners dig in and take a firm position on particular points. *Id.*

281. Ball, *supra* note 5, at 164.

282. *Id.*

283. *Id.*

284. Note, *supra* note 4, at 202.

may not exceed in order to avoid the remittance of excessive fees.<sup>285</sup>

By allowing developing countries to legislate in a reasonable manner, shared confidence and mutual respect may be established thereby providing a better foundation upon which to conduct business.<sup>286</sup>

The legislation proposed by the U.S. government does not promote education, fair bargaining, and the acceptance of limited modification in the trademark system, in a manner that satisfactorily addresses the decline of the trademark system in developing countries.<sup>287</sup> The alternatives recommended, however, will increase a developing country's understanding of the trademark's usefulness and value,<sup>288</sup> and allow compromise in the common practices of international trademark law.<sup>289</sup> These alternative solutions will slow the deterioration of the trademark system and improve intellectual property protection for American companies in Third World countries by encouraging the pursuit of mutually beneficial objectives.<sup>290</sup>

### VIII. CONCLUSION

The international trademark crisis is not a product of the trademark's inappropriateness as a device that functions to protect the interests of consumers and manufacturers, but of different social and economic objectives existing in industrialized nations and developing countries.<sup>291</sup> The pursuit of these objectives diminishes the integrity of the trademark system and facilitates its decline in Third World countries.<sup>292</sup> As a result, the U.S. Government will not resolve the inadequate trademark protection that is provided to American companies abroad by implementing a policy that is

---

285. *Id.* at 200; see also *UNCTAD Report*, *supra* note 8, para. 18.

286. See Vargas, *supra* note 51, at 204.

287. See *supra* notes 209-31 and accompanying text.

288. See *supra* notes 269-78 and accompanying text.

289. See *supra* notes 278-86 and accompanying text.

290. See Ball, *supra* note 5, at 173, 174; see also Note, *supra* note 4, at 200-02.

291. Ball, *supra* note 5, at 174.

292. *Id.* "It is inevitable that there will be some conflict between the legitimate interests of the Third World and those of multinational concerns, but given their common purpose, these differences should not be regarded as irreconcilable." Both sides will have to acknowledge their differences or face a continuing deterioration in the trademark system in developing countries. *Id.* Such a course would not be beneficial to American business interest abroad.

protectionist in nature.<sup>293</sup> This type of policy will have a detrimental impact on Third World countries and exacerbate the deterioration of the trademark system, as these countries react adversely to this policy.<sup>294</sup>

What may resolve the current international trademark crisis is for the United States to lead the world in formulating better solutions that promote common objectives,<sup>295</sup> rather than reacting improvidently to momentary differences in perspective and the transient desires of certain American companies. A policy which promotes compromise and understanding will settle the differences, and resolve the conflict. In the future, the United States may effectuate a more favorable business climate by encouraging better relations with foreign countries instead of encouraging business at the expense of better relations.

*Raymer McQuiston*

---

293. See *supra* notes 248-62 and accompanying text.

294. *Id.*

295. Ball, *supra* note 5, at 174. The United States should not abandon its free-market principles. Gibson, *supra* note 148, at 75. The alternatives recommended do not promote such a notion, but rather seek to achieve some equitable means of ending the present trademark crisis without furthering the deterioration of the trademark system.