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**PART 1: NATURE OF OBLIGATIONS, PRINCIPLES  
AND OBJECTIVES**

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**1: Preamble**

Members,

Desiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade;

Recognizing, to this end, the need for new rules and disciplines concerning:

- (a) the applicability of the basic principles of GATT 1994 and of relevant international intellectual property agreements or conventions;
- (b) the provision of adequate standards and principles concerning the availability, scope and use of trade-related intellectual property rights;
- (c) the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems;
- (d) the provision of effective and expeditious procedures for the multilateral prevention and settlement of disputes between governments; and
- (e) transitional arrangements aiming at the fullest participation in the results of the negotiations;

Recognizing the need for a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods;

Recognizing that intellectual property rights are private rights;

Recognizing the underlying public policy objectives of national systems for the protection of intellectual property, including developmental and technological objectives;

Recognizing also the special needs of the least-developed country Members in respect of maximum flexibility in the domestic implementation of laws and regulations in order to enable them to create a sound and viable technological base;

Emphasizing the importance of reducing tensions by reaching strengthened commitments to resolve disputes on trade-related intellectual property issues through multilateral procedures;

Desiring to establish a mutually supportive relationship between the WTO and the World Intellectual Property Organization (referred to in this Agreement as "WIPO") as well as other relevant international organizations;

Hereby agree as follows:

## 1. Introduction: terminology, definition and scope

The preamble of the TRIPS Agreement reflects the contentious nature of the negotiations and the differences in perspective among the negotiating WTO Members.

Government officials and judges may use the preamble of a treaty as a source of interpretative guidance in the process of implementation and dispute settlement. The statements contained in preambles are not intended to be *operative* provisions in the sense of creating specific rights or obligations. A preamble is designed to establish a definitive record of the intention or purpose of the parties in entering into the agreement.

Article 31 of the Vienna Convention on the Law of Treaties (VCLT)<sup>1</sup> provides that the preamble forms part of the treaty text and, as such, part of the terms and "context" of the treaty for purposes of interpretation.<sup>2</sup> In this sense, the preamble should be distinguished from the negotiating history of the treaty that is a "supplementary means of interpretation" that should be used when the express terms are ambiguous, or to confirm an interpretation (Article 32, VCLT).<sup>3</sup>

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### 2.1 Situation pre-TRIPS

TRIPS is a "new instrument" on IPRs in international trade. It is the result of "new area" negotiations in the Uruguay Round.<sup>4</sup> Its preamble reflects a particular

<sup>1</sup> The Convention was adopted on 22 May 1969 and entered into force on 27 January 1980. Text: United Nations, *Treaty Series*, vol. 1155, p.331.

<sup>2</sup> Article 31 of the Vienna Convention on the Law of Treaties (VCLT) provides in relevant part:  
"1. A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.  
2. The context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes;" [underlining added]

<sup>3</sup> Article 32 of the VCLT provides:  
"Recourse may be had to supplementary means of interpretation, including the preparatory work of the treaty and the circumstances of its conclusion, in order to confirm the meaning resulting from the application of article 31, or to determine the meaning when the interpretation according to article 31:  
(a) leaves the meaning ambiguous or obscure; or  
(b) leads to a result which is manifestly absurd or unreasonable."

The terms "treaty" and "international agreement" are largely synonymous, and are used interchangeably in this chapter. In some national legal systems (such as that of the United States), the terms are sometimes used to distinguish the type of domestic ratification procedure that must be followed for approval.

<sup>4</sup> The other principle "new area" of negotiations concerned trade in services, resulting in the General Agreement on Trade in Services, or GATS. While trade-related investment measures (or TRIMs) also covered a "new area", the resulting agreement in that area largely restated existing GATT 1947 rules.

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balance of rights and obligations unique to the Agreement. In this sense, there is no “pre-TRIPS situation” for the preamble since the Agreement was designed to fill a perceived gap in the GATT 1947 legal system. The preamble reflects the views of the parties regarding the outcome of the negotiations and the object and purposes of the new instrument. Yet, the object and purposes of a new legal instrument do not arise in a historical vacuum. It is therefore useful to refer briefly to the factors that brought the new instrument about.

Prior to negotiation of TRIPS, IPRs were principally regulated at the international level by a number of treaties administered by the World Intellectual Property Organization (WIPO). These treaties included the Paris Convention on Industrial Property and the Berne Convention on Literary and Artistic Works. Starting in the late 1970s, developed countries expressed increasing concern that the treaty system administered by WIPO failed to adequately protect the interests of their technology-based and expressive industries. The major concerns were that WIPO treaties did not in some cases establish adequate substantive standards of IPR protection and that the WIPO system did not provide adequate mechanisms for enforcing obligations.

In the 1970s, the developing countries sought to establish new rules on a New International Economic Order (NIEO) that would include among its objectives mechanisms to facilitate the transfer of technology from developed to developing countries. Part of this initiative entailed securing greater access to technology protected by IPRs in the developed countries by limiting the scope of protection in developing countries and by closely regulating the exercise of rights.<sup>5</sup> The objectives of the NIEO were perceived by the developed countries as conflicting with their own interests in strengthening protection of IPRs, first in WIPO and later in the GATT. Through the early 1980s developing countries were not persuaded that altering the WIPO system to strengthen IPR protection was necessary or appropriate.

In the lead-up to negotiations on a mandate for the Uruguay Round, developed country industry groups successfully created a coalition of governments that would pursue the objective of moving IPRs regulation from WIPO to the GATT. At the GATT, the dual objectives of establishing high standards of IPR protection and a strong multilateral enforcement mechanism would be pursued.

The GATT was founded with the goal of liberalizing world trade.<sup>6</sup> It was not concerned with intellectual property as such. One of the major issues confronting GATT negotiators prior to launching the Uruguay Round was whether IPRs should be considered sufficiently “trade-related” to be brought within the subject matter covered by the institution. Since WIPO existed as a specialized agency of the United Nations with the role of defining and administering international IPRs

<sup>5</sup> Such efforts were exemplified by the technology regulations put in place by the Andean Community in the early 1970s through Decision 24 of the Andean Group. See, Frederick M. Abbott, *Bargaining Power and Strategy in the Foreign Investment Process: A Current Andean Code Analysis*, 3 SYRACUSE J. OF INT'L L. & COMM. 319 (1975); Susan Sell, *Power of Ideas: North South Politics of Intellectual Property and Antitrust* (1998), State University of New York Press; and S.J. Patel, P. Roffe, A. Yusuf, *International Technology Transfer: The Origins and Aftermath of the United Nations Negotiations on a Draft Code of Conduct*. 2001, Kluwer Law International, The Hague.

<sup>6</sup> See the preamble to the GATT 1947.

standards, it was not clear whether or why the GATT should take on an overlapping mandate.

The subject of TRIPS was included in the Uruguay Round mandate without prejudgment regarding the substance or form of any resulting agreement. In fact, there was expectation at the outset of the negotiations that only a Tokyo Round type "code" among the developed countries and a select few developing countries might be achieved in a first round of negotiations on this subject matter.<sup>7</sup>

From the outset of the Uruguay Round negotiations in 1986, and until early 1989, developing countries were opposed to incorporating substantive standards of IPR protection in the GATT (although there was sympathy for affording basic protection against trademark counterfeiting and copyright piracy).<sup>8</sup> However, the resistance of developing countries was overcome through a combination of concessions offered by developed countries in other areas (principally agriculture and textiles), and by threats of trade sanctions and, implicitly at least, dismantling of the GATT.<sup>9</sup>

Although the major developed country actors – the United States, European Community, Japan and Switzerland – took somewhat different approaches to TRIPS during the Uruguay Round, the coalition essentially remained firm on broad strategic objectives throughout the negotiations.

## 2.2 Negotiating history

### 2.2.1 Early proposals

**2.2.1.1 The USA.** The initial November 1987 United States "Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights" included a section that addressed the objectives of the agreement:

**"Objective.** The objective of a GATT intellectual property agreement would be to reduce distortions of and impediments to legitimate trade in goods and services caused by deficient levels of protection and enforcement of intellectual property rights. In order to realize that objective all participants should agree to undertake the following:

- Create an effective economic deterrent to international trade in goods and services which infringe intellectual property rights through implementation of border measures;

<sup>7</sup> See the 1987 U.S. proposal quoted in the next Section that, in its final clause, assumes the adoption of a code among a limited group of GATT contracting parties.

<sup>8</sup> See, Frederick M. Abbott, *Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework*, 22 VAND. J. OF TRANSNAT'L L. 689 (1989), J.H. Reichman, *From Free Riders to Fair Followers: Global Competition Under the TRIPS Agreement.*, 29 New York University Journal of International Law and Politics 11 (1996) and UNCTAD, *The TRIPS Agreement and Developing Countries* (1996), United Nations Publication, Sales No. E.96.II.D.10.

<sup>9</sup> See UNCTAD-ICTSD Policy Discussion Paper, *Intellectual Property Rights: Implications for Development* (2003), Geneva [hereinafter UNCTAD-ICTSD Policy Discussion Paper].

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- Recognize and implement standards and norms that provide adequate means of obtaining and maintaining intellectual property rights and provide a basis for effective enforcement of those rights;
- Ensure that such measures to protect intellectual property rights do not create barriers to legitimate trade;
- Extend international notification, consultation, surveillance and dispute settlement procedures to protection of intellectual property and enforcement of intellectual property rights;
- Encourage non-signatory governments to achieve, adopt and enforce the recognized standards for protection of intellectual property and join the agreement.”<sup>10</sup>

**2.2.1.2 The EC.** A proposal of Guidelines and Objectives submitted by the European Community to the TRIPS Negotiating Group in July 1988 also addressed the general purposes of an agreement, stating *inter alia*:

“... the Community suggests that the negotiations on substantive standards be conducted with the following guidelines in mind:

- they should address trade-related substantive standards in respect of issues where the growing importance of intellectual property rights for international trade requires a basic degree of convergence as regards the principles and the basic features of protection;
- GATT negotiations on trade related aspects of substantive standards of intellectual property rights should not attempt to elaborate rules which would substitute for existing specific conventions on intellectual property matters; contracting parties, could, however, when this was deemed necessary, elaborate further principles in order to reduce trade distortions or impediments. The exercise should largely be limited to an identification of an agreement on the principles of protection which should be respected by all parties; the negotiations should not aim at the harmonization of national laws;
- the GATT negotiations should be without prejudices to initiatives that may be taken in WIPO or elsewhere....”<sup>11</sup>

The EC proposal stated that it was not intended to indicate a preference for a “code” approach.<sup>12</sup>

<sup>10</sup> Suggestion by the United States for Achieving the Negotiating Objective, United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/14, 20 Oct. 1987, Nov. 3, 1987.

<sup>11</sup> Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade Related Aspects of Substantive Standards of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/26, July 1988, at II.

<sup>12</sup> *Id.*, at note 1.

**2.2.1.3 India.** In July 1989, India submitted a detailed paper that elaborated a developing country perspective on the negotiations. It concluded:

“It would... not be appropriate to establish within the framework of the General Agreement on Tariffs and Trade any new rules and disciplines pertaining to standards and principles concerning the availability, scope and use of intellectual property rights.”<sup>13</sup>

At a meeting of the TRIPS Negotiating Group in July 1989, the objectives and principles of the agreement were discussed. As reported by the Secretariat, India was among those countries that made a fairly detailed intervention:

“5. In his statement introducing the Indian paper, the representative of India first referred to recent action by the United States under its trade law and recalled the serious reservations of his delegation about the relevance and utility of the TRIPS negotiations as long as measures of bilateral coercion and threat continued. Subject to this reservation, his delegation submitted the paper circulated as document NG11/W/37, setting out the views of India on this agenda item. At the outset, he emphasised three points. First, India was of the view that it was only the restrictive and anti-competitive practices of the owners of the IPRs that could be considered to be trade-related because they alone distorted or impeded international trade. Although India did not regard the other aspects of IPRs dealt with in the paper to be trade-related, it had examined these other aspects in the paper for two reasons: they had been raised in the various submissions made to the Negotiating Group by some other participants; and, more importantly, they had to be seen in the wider developmental and technological context to which they properly belonged. India was of the view that by merely placing the label “trade-related” on them, such issues could not be brought within the ambit of international trade. Secondly, paragraphs 4(b) and 5 of the TNC decision of April 1989 were inextricably inter-linked. The discussions on paragraph 4(b) should unambiguously be governed by the socio-economic, developmental, technological and public interest needs of developing countries. Any principle or standard relating to IPRs should be carefully tested against these needs of developing countries, and it would not be appropriate for the discussions to focus merely on the protection of the monopoly rights of the owners of intellectual property. Thirdly, he emphasised that any discussion on the intellectual property system should keep in perspective that the essence of the system was its monopolistic and restrictive character. This had special implications for developing countries, because more than 99 per cent of the world’s stock of patents was owned by the nationals of the industrialised countries. Recognising the extraordinary rights granted by the system and their implications, international conventions on this subject incorporated, as a central philosophy, the freedom of member States to attune their intellectual property protection system to their own needs and conditions. This freedom of host countries should be recognised as a fundamental principle and should guide all of the discussions in the Negotiating Group. . . . Substantive standards on intellectual property were really related to socio-economic, industrial and technological development, especially

<sup>13</sup> Communication from India, Standards and Principles Concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights, MTN.GNG/NG11/W/37, 10 July 1989.

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in the case of developing countries. It was for this reason that GATT had so far played only a peripheral role in this area and the international community had established other specialised agencies to deal with substantive issues of IPRs. The Group should therefore focus on the restrictive and anti-competitive practices of the owners of IPRs and evolve standards and principles for their elimination so that international trade was not distorted or impeded by such practices.”<sup>14</sup>

The Indian position was debated extensively, with a substantial number of developing delegations lending their support.

### 2.2.2 The Anell Draft

The preamble draft texts (as well as drafts regarding objectives and principles) appeared in the Annex to the 23 July 1990 Anell Report to the General Negotiating Group (GNG) on the status of work in the TRIPS Negotiating Group.<sup>15</sup> The source of each Annex proposal is indicated by numerical reference to the country source document:

“This Annex reproduces tel quel Parts I, VI, VII and VIII of the composite draft text which was circulated informally by the Chairman of the Negotiating Group on 12 June 1990. The text was prepared on the basis of the draft legal texts submitted by the European Communities (NG11/W/68), the United States (NG11/W/70), Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Uruguay, and subsequently also sponsored by Pakistan and Zimbabwe (NG11/W/71), Switzerland (NG11/W/73), Japan (NG11/W/74) and Australia (NG11/W/75).”

Because features of the preamble originated from drafts on objectives and principles, the draft texts on objectives and principles are also reproduced here:

#### “PART I: PREAMBULAR PROVISIONS; OBJECTIVES

##### 1. Preamble (71); Objectives (73)

1.1 Recalling the Ministerial Declaration of Punta del Este of 20 September 1986; (73)

1.2 Desiring to strengthen the role of GATT and its basic principles and to bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines; (73)

1.3 Recognizing that the lack of protection, or insufficient or excessive protection, of intellectual property rights causes nullification and impairment of advantages and benefits of the General Agreement on Tariffs and Trade and distortions detrimental to international trade, and that such nullification and impairment may be caused both by substantive and procedural deficiencies, including ineffective enforcement of existing laws, as well as by unjustifiable discrimination of foreign persons, legal entities, goods and services; (73)

<sup>14</sup> Note by the Secretariat, Meeting of Negotiating Group of 12–14 July 1989, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/14, 12 September 1989.

<sup>15</sup> For an explanation of the Anell Draft, see the explanatory note on the methodology at the beginning of this volume.

- 1.4 Recognizing that adequate protection of intellectual property rights is an essential condition to foster international investment and transfer of technology; (73)
- 1.5 Recognizing the importance of protection of intellectual property rights for promoting innovation and creativity; (71)
- 1.6 Recognizing that adequate protection of intellectual property rights both internally and at the border is necessary to deter and persecute piracy and counterfeiting; (73)
- 1.7 Taking into account development, technological and public interest objectives of developing countries; (71)
- 1.8 Recognizing also the special needs of the least developed countries in respect of maximum flexibility in the application of this Agreement in order to enable them to create a sound and viable technological base; (71)
- 1.9 Recognizing the need for appropriate transitional arrangements for developing countries and least developed countries with a view to achieve successfully strengthened protection and enforcement of intellectual property rights; (73)
- 1.10 Recognizing the need to prevent disputes by providing adequate means of transparency of national laws, regulations and requirements regarding protection and enforcement of intellectual property rights; (73)
- 1.11 Recognizing the need to settle disputes on matters related to the protection of intellectual property rights on the basis of effective multilateral mechanisms and procedures, and to refrain from applying unilateral measures inconsistent with such procedures to PARTIES to this PART of the General Agreement; (73)
- 1.12 Recognizing the efforts to harmonize and promote intellectual property laws by international organizations specialized in the field of intellectual property law and that this PART of the General Agreement aims at further encouragement of such efforts; (73)

## 2. Objective of the Agreement (74)

- 2A The PARTIES agree to provide effective and adequate protection of intellectual property rights in order to ensure the reduction of distortions and impediments to [international (68)] [legitimate (70)] trade. The protection of intellectual property rights shall not itself create barriers to legitimate trade. (68, 70)
- 2B The objective of the present Agreement is to establish adequate standards for the protection of, and effective and appropriate means for the enforcement of intellectual property rights; thereby eliminating distortions and impediments to international trade related to intellectual property rights and foster its sound development. (74)
- 2C With respect to standards and principles concerning the availability, scope and use of intellectual property rights, PARTIES agree on the following objectives:
  - (i) To give full recognition to the needs for economic, social and technological development of all countries and the sovereign right of all States, when enacting national legislation, to ensure a proper balance between these needs and the rights granted to IPR holders and thus to determine the scope and level of protection of such rights, particularly in sectors of special public concern, such as health, nutrition, agriculture and national security. (71)
  - (ii) To set forth the principal rights and obligations of IP owners, taking into account the important inter-relationships between the scope of such rights and obligations and the promotion of social welfare and economic development. (71)

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- (iii) To facilitate the diffusion of technological knowledge and to enhance international transfer of technology, and thus contribute to a more active participation of all countries in world production and trade. (71)
- (iv) To encourage technological innovation and promote inventiveness in all countries. (71)
- (v) To enable participants to take all appropriate measures to prevent the abuses which might result from the exercise of IPRs and to ensure intergovernmental co-operation in this regard. (71)"<sup>16</sup>

The Anell text included in its main body (i.e., not in the Annex) a "B" provision with respect to "Principles" that is mainly reflected in Articles 7 and 8 of TRIPS. It is, however, relevant to the preamble:

### "8. Principles

8B.1 PARTIES recognize that intellectual property rights are granted not only in acknowledgement of the contributions of inventors and creators, but also to assist in the diffusion of technological knowledge and its dissemination to those who could benefit from it in a manner conducive to social and economic welfare and agree that this balance of rights and obligations inherent in all systems of intellectual property rights should be observed.

8B.2 In formulating or amending their national laws and regulations on IPRs, PARTIES have the right to adopt appropriate measures to protect public morality, national security, public health and nutrition, or to promote public interest in sectors of vital importance to their socio-economic and technological development.

8B.3 PARTIES agree that the protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and enhance the international transfer of technology to the mutual advantage of producers and users of technological knowledge.

8B.4 Each PARTY will take the measures it deems appropriate with a view to preventing the abuse of intellectual property rights or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology. PARTIES undertake to consult each other and to co-operate in this regard."<sup>17</sup>

The difference in perspectives among developed and developing countries is evident in the Annex to the Anell text. Much of the ultimately concluded TRIPS Agreement preamble can be found in proposals from Japan and Switzerland from the developed country side. A more modest influence is seen from proposals by the group of developing countries. The first paragraph of the TRIPS preamble principally emerges from proposals of the United States, European Community and Japan (see paragraphs 2A and 2B of "Objective of the Agreement", above). The structure and terms of the preamble reflect the generally successful

<sup>16</sup> Chairman's Report to the GNG, Status of Work in the Negotiating Group, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/76, 23 July 1990.

<sup>17</sup> *Id.*

effort of developed countries to incorporate protection of IPRs in the WTO legal system.

### **2.2.3 The Brussels and Dunkel Drafts**

The draft text of the TRIPS Agreement transmitted to the Brussels Ministerial Conference on Chairman Anell's initiative in December 1990 substantially reorganized the July 1990 proposals into the form of a preamble, and Articles 7 ("Objectives") and 8 ("Principles").<sup>18</sup> The Brussels Draft text on the preamble was essentially the same as the final TRIPS text, with no significant changes made in the Dunkel Draft.<sup>19</sup>

## **3. Possible interpretations**

As noted earlier, the preamble of TRIPS may be used as a source for interpretation of the operative provisions of the agreement.<sup>20</sup> Since the preamble is not directed to establishing specific rights or obligations, it is difficult to predict the circumstances in which its provisions may be relied upon. Many or most TRIPS Agreement articles leave some room for interpretation, and in this sense the preamble may be relevant in many interpretative contexts. Some general observations may nevertheless be useful.

The first clause of the preamble indicates that the main objective of the Agreement is "to reduce distortions and impediments to international trade". This objective is to be accomplished "taking into account" the need to protect and enforce IPRs. The protection of IPRs is not an end in itself, but rather the means to an end. This is a critical point, because interest groups often lose sight of the basic mission of the WTO which, as stated in the preamble of the WTO Agreement, is to promote trade and economic development, not to protect the interests of particular private IPR-holding interest groups.

The first clause of the preamble also recognizes that measures to enforce IPRs may become obstacles to trade. Border measures, for example, might be implemented in ways that allow IPRs holders to inhibit legitimate trade opportunities of producers.

Subparagraph (b) of the second clause refers to the need to provide "adequate" IPR standards. The intention of the drafters was not to create the system of IPR protection that would be considered "optimum" by particular right holders groups, but one that is adequate to protect the basic integrity of the trading system. The development and implementation of IPR laws involves balancing the interests of the public in access to information and technology, and the interests of those creating new works and inventions in securing return on their investments. It is often possible to expand the protection of private right holders and increase

<sup>18</sup> Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Revision, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 Dec. 1990.

<sup>19</sup> Trade Negotiations Committee, Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, MTN.TNG/W/FA, 20 Dec. 1991 (generally referred to as the "Dunkel Draft").

<sup>20</sup> See Section 1 above and references to the VCLT therein.

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their investment returns, but this expansion of rights may have an adverse impact on the welfare of a wider public. The objective of IPR laws is not to provide the maximum possible return to right holders, but to strike the proper balance of private and public interests. In the trade context, the objective (as stated in the first paragraph of the preamble) is to avoid distortion of the system. WTO Members may argue that TRIPS substantive standards and enforcement measures become trade-related issues only when they are operating inadequately at an aggregate level materially affecting trade flows in a negative way.

Subparagraph (c) recognizes that enforcement measures may take into account differences in national legal systems. This recognizes an important element of flexibility in enforcement.

The fourth clause of the preamble refers to intellectual property rights as “private rights.” The reference to IPRs as “private rights” in the preamble was not intended to exclude the possibility of government or public ownership of IPRs.<sup>21</sup> Most likely, the reference to IPRs as private rights was inserted in the preamble because of the unique characteristic of TRIPS in regulating national laws governing privately held interests (e.g., patents), in specifying remedies that are to be provided under national law for protecting such interests, and in clarifying that governments would not be responsible for policing IPR infringements on behalf of private right holders.

The fifth clause of the preamble recognizes “the underlying public policy objectives of national systems for the protection of intellectual property, including developmental and technological objectives.” Developing country delegations had strongly promoted the importance of recognizing the public policy objectives of IPRs during the TRIPS negotiations, and that such policy objectives called for moderating the demands of right holders. Public policy objectives are further dealt with in Articles 7 and 8.

The sixth clause emphasizes the need for “maximum flexibility” in favour of least developed countries. This is addressed more specifically in Article 66,<sup>22</sup> but it is important that it is stated in the preamble in terms of “maximum” flexibility, as the term “maximum” does not appear in Article 66.

The eighth clause of the preamble emphasizes the importance of dealing with TRIPS issues through multilateral procedures. This was included in the preamble to address frequently articulated concerns of the developing countries about use of bilateral threats and enforcement measures to address alleged deficiencies in IPR protection.

The ninth clause recognizes the intention to pursue mutually supportive relationships with WIPO and other “relevant” international organizations. To a certain

<sup>21</sup> Public ownership of IPRs was and is a fairly common practice. According to a senior member of the WTO Secretariat who participated in the TRIPS negotiations, the reference to “private rights” was included at the insistence of the Hong Kong delegation, which wanted clarification that the enforcement of IPRs is the responsibility of private rights holders, and not of governments. See Frederick M. Abbott, *Technology and State Enterprise in the WTO*, in 1 World Trade Forum: State Trading in the Twenty-First Century 121 (Thomas Cottier and Petros Mavroidis eds. 1998). Assuming that this accurately reflects the genesis of the relevant language, other delegations may have attached different significance to the “private rights” language.

<sup>22</sup> See Chapter 33.

extent, the emphasis on WIPO downplays the significant role that other multilateral organizations play in the field of IPR protection, such as the United Nations Conference on Trade and Development (UNCTAD). As such, the lack of specific reference to other international organizations may reflect a general lack of attention among trade negotiators to the wider effects that TRIPS would have on international public policy.

#### 4. WTO jurisprudence

##### 4.1 Shrimp-Turtles

The potential importance of the preamble to TRIPS is demonstrated by reference to the decision of the WTO Appellate Body in the Shrimp-Turtles case.<sup>23</sup> In that case, reference in the WTO Agreement to the objective of “sustainable development” fundamentally influenced the approach of the AB to interpretation of the GATT 1994. This is not to suggest that particular terms of the preamble to TRIPS will necessarily play a role of comparable importance to that of “sustainable development” in the WTO Agreement, but rather to illustrate that the preamble *might* play an important role in the interpretative process.

In the Shrimp-Turtles case, the AB rejected a narrow interpretation of Article XX of the GATT 1947 adopted by the panel, which had placed a strong emphasis on protecting against threats to “the multilateral trading system”. The AB said:

“An environmental purpose is fundamental to the application of Article XX, and such a purpose cannot be ignored, especially since the preamble to the *Marrakesh Agreement Establishing the World Trade Organization*<sup>24</sup> (the “*WTO Agreement*”) acknowledges that the rules of trade should be ‘in accordance with the objective of sustainable development’, and should seek to ‘protect and preserve the environment’.” (at para. 12)

It added:

“Furthermore, the Panel failed to recognize that most treaties have no single, undiluted object and purpose but rather a variety of different, and possibly conflicting, objects and purposes. This is certainly true of the *WTO Agreement*. Thus, while the first clause of the preamble to the *WTO Agreement* calls for the expansion of trade in goods and services, this same clause also recognizes that international trade and economic relations under the *WTO Agreement* should allow for ‘optimal use of the world’s resources in accordance with the objective of sustainable development’, and should seek ‘to protect and preserve the environment’. The Panel in effect took a one-sided view of the object and purpose of the *WTO Agreement* when it fashioned a new test not found in the text of the Agreement.” (at para. 17)

The AB also observed that:

“While Article XX was not modified in the Uruguay Round, the preamble attached to the *WTO Agreement* shows that the signatories to that Agreement were, in 1994,

<sup>23</sup> *United States – Import Prohibition on Certain Shrimp and Shrimp Products*, AB-1998-4 WT/DS58/AB/R, 12 Oct. 1998.

<sup>24</sup> Done at Marrakesh, 15 April 1994.

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fully aware of the importance and legitimacy of environmental protection as a goal of national and international policy. The preamble of the *WTO Agreement* – which informs not only the GATT 1994, but also the other covered agreements – explicitly acknowledges ‘the objective of *sustainable development*:’ (at para. 129)

“From the perspective embodied in the preamble of the *WTO Agreement*, we note that the generic term “natural resources” in Article XX(g) is not “static” in its content or reference but is rather ‘by definition, evolutionary.’ [at para. 130 footnotes omitted, italics in the original]

It would not be an exaggeration to say that the preamble of the WTO Agreement not only played a key role in determining the result of the *Shrimp-Turtles* case, in which the AB provided a much more nuanced approach to evaluating claims of trade discrimination than the panel; but, moreover, it provided the foundation for what may be the single most important development in the interpretative approach of the AB since the inception of the WTO – that is, the notion of “evolutionary” interpretation.<sup>25</sup>

As noted earlier, because there is a wide variety of dispute that may arise under TRIPS, it is not practicable to predict the circumstances in which the preamble may be employed as an interpretative source. What the *Shrimp-Turtles* case makes evident is that the potential role of the preamble should not be discounted.

## 5. Relationship with other international instruments

### 5.1 WTO Agreements

The preamble of TRIPS should be read in conjunction with the preamble of the WTO Agreement that sets out the objectives of the organization. These objectives are to reduce barriers and discrimination in trade in order to promote economic development and improve standards of living, with attention to sustainable development, and with special attention to the needs of developing countries. The TRIPS Agreement was added to the GATT – now WTO – framework to assure that adequate protection of IPRs promoted world trade in goods and services; and that the under- and over-protection of IPRs did not undermine the economic strategy and ultimate objectives of the organization. The protection of IPRs is part of the means to an end – to be “taken into account” within a larger strategy to promote economic growth. The core objective of the WTO is to improve worldwide standards of living.

### 5.2 Other international instruments

The preamble of TRIPS in its last paragraph (see quotation in Section 1, above) makes specific reference to establishing a mutually supportive relationship between the WTO and WIPO and other relevant international organizations. Although discussing how to establish such a relationship was not given much consideration during the Uruguay Round, developing Members may rely on this provision in the context of urging greater cooperation with UNCTAD, the World Health

<sup>25</sup> For more details on the interpretation of the TRIPS Agreement, including the concept of “evolutionary interpretation”, see Annex II to Chapter 32.

Organization (WHO) and other institutions that pursue broad developmental interests.

## 6. New developments

### 6.1 National laws

### 6.2 International instruments

#### 6.2.1 The Doha Declaration on the TRIPS Agreement and Public Health

The Declaration on the TRIPS Agreement and Public Health adopted by Ministers at Doha on 14 November 2001 includes important statements regarding the objectives of TRIPS.<sup>26</sup> The Doha Declaration includes recitals or preambular provisions (paragraphs 1–3) that precede and provide context for its operative provisions (paragraphs 4–7).<sup>27</sup> The role of the Doha Declaration in the interpretation of TRIPS is discussed in Chapter 6 (Objectives and principles).

### 6.3 Regional and bilateral contexts

### 6.4 Proposals for review

## 7. Comments, including economic and social implications

The preamble of TRIPS refers to the general purposes and objectives of the Agreement. This raises the questions whether the agreement as a whole is in the interests of developing Members of the WTO, and whether parts of the agreement may reflect an inappropriate balance from a developing country standpoint.

There is wide acceptance among international economists and other policy specialists concerned with the role of IPRs in the economic development process that our collective understanding of this role is substantially incomplete. This incompleteness derives from the nature of IP itself and from the measurement problems associated with it.<sup>28</sup>

As a basic proposition, and leaving aside for the moment issues relating to the situation of IPRs in various developmental contexts, to empirically determine the role IPRs play in the economic development process, we would need to

<sup>26</sup> See WT/MIN(01)/DEC/W/2 of 14 November 2001.

<sup>27</sup> The Doha Declaration in paras. 1–3 provides:

1. We recognize the gravity of the public health problems afflicting many developing and least-developed countries, especially those resulting from HIV/AIDS, tuberculosis, malaria and other epidemics.
2. We stress the need for the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) to be part of the wider national and international action to address these problems.
3. We recognize that intellectual property protection is important for the development of new medicines. We also recognize the concerns about its effects on prices.”

<sup>28</sup> This section is based on Frederick M. Abbott, *The Enduring Enigma of TRIPS: A Challenge for the World Economic System*, 1 Journal of International Economic Law 497 (1998) (Oxford Univ. Press). See also the Report of the Commission on Intellectual Property Rights, *Integrating Intellectual Property Rights and Development Policy*, London, 2002, in particular Chapter 1 [hereinafter IPR Commission]; see also the UNCTAD-ICTSD Policy Discussion Paper, in particular Part I.

## 7. Comments, including economic and social implications

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measure the cause and effect relationship between creating knowledge and creative works on the one hand, and restricting their diffusion and use for a certain duration on the other. Though economists and other policy specialists have endeavoured to create mechanisms for such measurement, this task has so far proven impracticable.

For any nation or region, IPRs are only one factor that will determine the course of development. Other factors include natural resource endowment, labour force characteristics, availability of capital, the size of markets and conditions of competition, and the form of government management/intervention in society. The difficulties inherent in disaggregating IPRs from other determinants of economic development have so far precluded meaningful measurement of the role of IPRs in the economic development process.

Though policy specialists may not be able to make precise measurements about the role of IPRs in economic development, there is an emerging consensus that the impact of IPRs is likely to be quite case sensitive. There are sound reasons to conclude, for example, that the role of patents in the process of development of an automotive sector is quite different to the role of patents in the development of a pharmaceutical sector. Similarly, there are sound reasons to conclude that the role of IPRs will be different in the economies of industrialized, developing and least-developed countries (LDCs), and that even among these broad categories of economic development there will be variations depending on a number of factors such as market size, local capacity for innovation, and so forth.<sup>29</sup>

Among international IPR specialists there is certainly a range of views as to the value of introducing higher levels of IPR protection in newly industrializing, developing and least-developed countries. Some are strong advocates of introducing such systems on the grounds that they are preconditions of long-term economic growth, and are necessary complements to other facets of commercial law. It has been suggested that sound governance structures are central to improving economic welfare in developing countries, and that the introduction and improvement of IPRs-related legal rules and institutions may have a positive general impact on governance within these countries.

Other specialists are rather sceptical of introducing IPR systems on the grounds that rent transfer effects are likely to predominate, or that time and energy are better spent in areas (such as water and sanitation infrastructure) more likely to yield tangible benefits. There are those who would advocate a nuanced approach that would take into account the industry-specific and country-specific factors elaborated above.

Despite this range of perspectives, these specialists might nevertheless agree that (a) there are substantial gaps in our understanding based on the inherent nature of IP and difficulties in measuring its effects; (b) that the role of IPRs in economic development is likely to be industry and country case sensitive; and (c) that international IPR policy-makers are seeking to strike a balance between interests in

<sup>29</sup> See Lall, *Indicators of the Relative Importance of Intellectual Property Rights to Developing Countries*, UNCTAD-ICTSD, Geneva, 2003; also available at <http://www.iprsonline.org/index.htm>.

knowledge creation and knowledge diffusion under conditions in which drawing welfare-maximizing boundaries is difficult.

Regarding TRIPS balance, some points seem clear. There are cases in which private interests in IPRs must be subordinated to more compelling public interests. For example, developing countries are facing increasing social, political and financial difficulties as a consequence of epidemic disease. Although research-based pharmaceutical enterprises in the developed countries may require high rates of return on investment in order to finance research into new treatments, the developing and least developed WTO Members cannot be expected to bear the burden of paying for this research.

Whether and to what extent there are other circumstances in which IPRs must give way to more compelling public interests can be taken up as these questions present themselves. The TRIPS Agreement can only survive as an instrument of international public policy if it is able to appropriately balance potentially competing interests.

## 2: Nature and Scope of Obligations

### Article 1 Nature and Scope of Obligations

1. Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

### 1. Introduction: terminology, definition and scope

The requirement to implement an international agreement is implicit in the obligation to perform it in good faith. The obligation to perform in good faith ("*pacta sunt servanda*") is established by Article 26 of the Vienna Convention on the Law of Treaties (VCLT), which substantially codifies customary international law. Article 1.1 of TRIPS provides that Members will "give effect to the provisions" of the Agreement, restating the basic international legal obligation.

Article 1.1 adds two rules to this basic affirmation of the law of treaties. First, Members may, but need not, adopt more extensive protection of intellectual property (IP) than is required by the agreement and, second, "Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice".

By stating that Members may adopt protection "more extensive" than that provided for in the agreement, Article 1.1 establishes its rules as the base (or floor) of protection often referred to as TRIPS "minimum standards". Article 1.1 makes clear that Members are not obligated to adopt more extensive than TRIPS Agreement standards, so-called "TRIPS-plus" levels of protection.

The third sentence of Article 1.1 concerning freedom of implementation method is important in at least two senses. First, in addressing the relationship between TRIPS and domestic legal systems of Members, it does not establish an express rule regarding "direct effect" or "self-executing effect", leaving this to a determination by each Member. Each Member decides whether it will adopt specific statutes or administrative rules to implement TRIPS, or instead rely on the text of the Agreement as part of national law (see below, Section 3).

Second, it acknowledges the flexibility inherent in the express text of the TRIPS Agreement and intellectual property law more generally, authorizing each Member to implement the rules in the manner most appropriate for itself, provided that implementation is in accord with the terms of the agreement.

## 2. History of the provision

### 2.1 Situation pre-TRIPS

#### 2.1.1 "Give effect"

Prior to TRIPS the rules governing the protection of intellectual property at the multilateral level were established primarily by the World Intellectual Property Organization (WIPO) conventions.<sup>30</sup> The factors that led certain governments to propose the negotiation of the TRIPS Agreement are considered in Chapter 6 regarding the objectives and principles of the Agreement.

As noted above, international law requires state parties to a treaty or international agreement to "give effect" to that agreement as a matter of good faith performance. The VCLT, recognizing the obligation to perform in good faith, was adopted in 1969, and entered into force in 1980. Thus prior to the TRIPS Agreement negotiations the obligation to "give effect" to a treaty was accepted in international law.

#### 2.1.2 Minimum standards and more extensive protections

A treaty or international agreement might provide that its rules are intended to embody the sole set of norms for a particular subject matter, and effectively preclude a state party from adopting an alternative set of rules with more (or less) extensive protection. The parties negotiating the TRIPS Agreement had the option to decide that a uniform set of negotiated rules would represent the upper and lower boundary of IPR protection. Whether or not a treaty is intended to be the sole source of norms is determined by applying general principles of treaty interpretation. It is not the subject of a general rule. It bears noting that states are sovereign within their own territories and generally have the right to legislate in the manner they consider appropriate, unless discretion has been limited by a treaty or other rule of international law.<sup>31</sup>

The General Agreement on Tariffs and Trade 1947 (GATT 1947) provided the rules for the multilateral trading system prior to entry into force of the WTO Agreement. The GATT 1947 set certain maximum or upper boundaries in areas such as tariffs and quotas. Thus, under Article II, GATT 1947, Contracting Parties committed themselves to tariff bindings that constituted the upper threshold they might impose (on an MFN basis). It was not left to the discretion of each

<sup>30</sup> These treaties, principally the Paris Convention on the Protection of Industrial Property and the Berne Convention on the Protection of Literary and Artistic Works, are introduced in Chapter 3.

<sup>31</sup> Article 1.1, TRIPS Agreement, recognizes that, absent an agreed upon restriction or peremptory norm, states retain sovereign rights to govern within their territories. In this case, they retain the right to adopt more extensive protection.

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Contracting Party to adopt more extensive tariff protection than that to which it bound itself, but it was open to each Contracting Party to provide less tariff protection.

The WIPO Conventions did not attempt to establish the sole set of norms for the protection of IPRs, although they limited state discretion in a number of ways (for example, by requiring national treatment). Generally speaking, state parties to the WIPO conventions remained free to adopt more extensive protections than those specifically mandated by the agreements. While the Berne Convention established minimum standards of copyright protection, the Paris Convention did not define the principal substantive standards of patent protection, essentially leaving this to each state party.

IPRs may act as trade barriers and/or cause trade distortions.<sup>32</sup> If a government grants patents without adequate attention to whether true novelty and inventive step are involved, it may create unjustified impediments to market entry for products both of local and foreign origin. The U.S. Federal Trade Commission has observed that weak patents pose a threat to competitive markets and has urged greater vigilance on the part of patent officials, as well as improved mechanisms for challenging such patents.<sup>33</sup> Although concern about potential overprotection of IPRs was evidenced by various WTO Members throughout the TRIPS Agreement negotiations, and the potential problem of overprotection is referred to in the preamble, upper boundaries of protection are not well defined by the agreement.

### 2.1.3 Determining method of implementation

The VCLT and customary international law regarding treaties do not mandate particular means by which state parties should implement their obligations. The national (or regional) constitution of each state provides the interface between treaty obligations and domestic law. There are significant differences between the ways that national constitutions treat the relationship between treaties and domestic law.<sup>34</sup>

<sup>32</sup> As acknowledged in the first recital of the TRIPS preamble: “[...], and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade; [...]”

<sup>33</sup> A 2003 Federal Trade Commission (FTC) study of competition and patents in the United States focused on anticompetitive risks of overprotection, including through grant of patents of suspect quality. Proliferation of patents may threaten innovation by creating obstacles to competitive R & D, and impose costs on consumers. Recommendations included creation of opposition procedure, reducing litigation presumptions favouring patent holders, tightening standards and increasing resources for examining patent applications, exercising caution in expanding scope of patentable subject matter, and increasing federal agency competition vigilance regarding operation of patent system. U.S. Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, October 2003.

<sup>34</sup> There are generally three approaches. Under the “monist” approach the treaty is essentially treated as part of national law without any action needed by the national government other than to accept the treaty (e.g., in Argentina, France and the Netherlands). Under the “dualist” approach the treaty and national law are considered separate, except to the extent that the national government takes specific steps to transform all or part of the treaty into national law (e.g., in the United Kingdom). There is a middle ground approach in which treaties may be given direct effect, but the rights and obligations may also be modified by the legislature (e.g., in the United States).

**2.1.3.1 Direct effect.** A treaty may or may not be intended to have “direct effect” (or “self-executing effect”) in the domestic law of states that are parties to it and whose national constitutions allow for this possibility. Generally speaking, if a treaty is directly effective, persons (whether natural persons, i.e. individuals, or enterprises) may rely on it as a source of law before national courts. If a treaty is directly effective, the national government does not need to take additional steps to implement it beyond those involved in approving or adhering to the treaty. If the national government does not alter the terms of a directly effective treaty in the implementation process, this may limit the range of options open to the executive or legislative authorities in controlling how it is implemented.<sup>35</sup> Interpretation moves into the hands of judges who are called upon to apply it in specific cases or controversies.

The WIPO conventions do not expressly address the issue of direct application. Some national courts have directly applied the Berne<sup>36</sup> and Paris<sup>37</sup> Conventions as domestic law.

The GATT 1947 did not expressly state whether it was intended to be directly effective. The question was left for national authorities to decide based on interpreting its terms and context, and this question remained controversial throughout the GATT 1947 period. In a series of decisions addressing this question, the European Court of Justice (ECJ) decided that it was not, based on the general nature of its obligations and the fact that Contracting Parties often settled disputes by political negotiation rather than through the more legalized dispute settlement process.<sup>38</sup>

The negotiators of the TRIPS Agreement had the option to expressly indicate whether or not its terms would be directly effective, or to leave this as a matter for interpretation by national authorities or subject to constitutional law.

**2.1.3.2 Legal systems and practice.** As with ordinary domestic legislation, the terms of a treaty may be more or less detailed or precise. When legislation is drafted in general terms, it often requires more specific regulations in order to

<sup>35</sup> The law concerning direct effect of treaties is complex. If a treaty is directly effective, this does not necessarily preclude the government from adopting legislation to implement it, or even to modify its terms for domestic legal purposes. In the U.S. constitutional system, for example, the Congress may adopt “later in time” legislation that modifies the terms of the treaty for domestic purposes, even though this may not be consistent with U.S. international legal obligations. On the other hand, in the Netherlands, a directly effective treaty adopted by the legislative body may not be modified by subsequent legislation. If domestic law is to be altered, the treaty must be amended, or adherence withdrawn. See generally, *Parliamentary Participation in the Making and Operation of Treaties: A Comparative Study* (S.A. Riesenfeld & F.M. Abbott, eds. 1994: Martinus Nijhoff/Kluwer), and country chapters therein [hereinafter “Parliamentary Participation”].

<sup>36</sup> See, e.g., *SUISA v. Rediffusion AG*, Bundesgericht (Switzerland), [1982] ECC 481, Jan. 20, 1981, referring also to other European judgments. In the SUISA decision, the court refers to both Swiss federal law and the Berne Convention as the source of applicable legal rules.

<sup>37</sup> See, e.g., *Cuno v. Pall*, 729 F. Supp. 234 (EDNY 1989), U.S. federal district court applying Article 4bis of the Paris Convention directly.

<sup>38</sup> Beginning with Joined Cases 21 to 24/72 *International Fruit Company N.V. v. Produktschap voor Groenten en Fruit* (No. 3) [1972], ECR 1219. As to the ECJ’s jurisprudence with respect to a possible direct effect of the WTO Agreements, see below, Section 6.3; as well as Chapter 32.

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give it effect. Similarly, when treaties are drafted in more general terms, they may require more specific national legislation to produce effects in local law.

The WIPO conventions did not provide specific rules regarding how state parties should implement them in national law. Each state party was left to determine the appropriate method of implementation in the domestic legal system.

The level of specificity in the GATT 1947 varied among its provisions, though most of its rules were stated in a fairly general way. The Tokyo Round Codes added substantial specificity in areas such as regulation of dumping and subsidies, in part to address a perception that the more general rules of the GATT 1947 provided too much flexibility regarding the manner in which Contracting Parties interpreted those rules.

Intellectual property has traditionally been a highly sensitive policy area, and prior to the Uruguay Round states took rather different approaches to IPR regulation, even when addressing the same subject matter. In approaching the TRIPS negotiations, GATT Contracting Parties had the option of adopting very specific rules intended to remove discretion that states traditionally enjoyed in regulating IPRs, or adopt more general rules and leave greater discretion in the method of implementation. On the whole, the TRIPS Agreement that was concluded allows substantial flexibility in the specific implementation of IPR rules, while broadly demanding subject matter coverage for traditionally sensitive areas. The result is thus a mixed one: flexibility as to the finer aspects of implementation, yet starting from a broad scope of coverage.

### 2.2 Negotiating history

#### 2.2.1 The 1987 U.S. proposal

Discussions concerning the extent to which TRIPS would provide more general guidelines or instead seek to “harmonize” national IPR legislation are evident throughout the negotiating history. In its initial 1987 proposal, the United States suggested consistency with a defined set of standards, stating:

“In adhering to a GATT Agreement on trade-related aspects of intellectual property rights, Parties would agree to provide in their national laws for the protection of intellectual property at a level consistent with agreed norms attached in an annex to the Agreement.”<sup>39</sup>

#### 2.2.2 The 1988 E.C. proposal

The European Community stressed in 1988 the importance of allowing for different national approaches:

“[Negotiations] should address trade-related substantive standards in respect of issues where the growing importance of intellectual property rights for international

<sup>39</sup> Suggestion by the United States for Achieving the Negotiating Objective, United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/14, 20 Oct. 1987, Nov. 3, 1987, at Norms.

trade requires a basic degree of convergence as regards the principles and the basic features of protection; GATT negotiations on trade related aspects of substantive standards of intellectual property rights should not attempt to elaborate rules which would substitute for existing specific conventions on intellectual property matters; contracting parties could, however, when this was deemed necessary, elaborate further principles in order to reduce trade distortions or impediments. *The exercise should largely be limited to an identification of and agreement on the principles of protection which should be respected by all parties; the negotiations should not aim at the harmonization of national laws.*<sup>40</sup> [italics added]

### 2.2.3 The 1989 Australian proposal

Other industrialized country delegations highlighted that the TRIPS negotiations should focus on basic principles and trade effects. For example, in 1989, the Australian delegation adopted the following approach:

"Introducing his country's proposal (NG11/W/35), the representative of Australia said that the paper was intended to address the key issue of what standards and principles concerning the availability, scope and use of IPRs were appropriate to avoid inadequate or excessive protection of intellectual property in trade. Noting the use of the word "adequate" in paragraph 4(b) of the April TNC decision, he said that this suggested to his authorities that the Group was not necessarily looking for the highest possible standards or the broadest scope of protection."<sup>41</sup>

### 2.2.4 The 1988 Swiss proposal

The Swiss proposal for a TRIPS Agreement was centred on the notion that governments would maintain flexibility to adopt IPR laws they considered appropriate, provided that those laws did not conflict with an indicative list of practices that would be presumed to nullify or impair GATT rights.<sup>42</sup>

### 2.2.5 The Indian position in 1989

Reflecting the importance that the Indian delegation attached to the question of discretion regarding standards, in 1989 its delegate observed:

"Recognising the extraordinary rights granted by the system and their implications, international conventions on this subject incorporated, as a central philosophy, the freedom of member States to attune their intellectual property protection system to their own needs and conditions. *This freedom of host countries should be recognised as a fundamental principle and should guide all of the discussions in the Negotiating Group.*"<sup>43</sup> [Italics added]

<sup>40</sup> Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade Related Aspects of Substantive Standards of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/26, July 1988, at II.

<sup>41</sup> Note by the Secretariat, Meeting of Negotiating Group of 12-14 July 1989, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/14, 12 September 1989, at para. 6 [hereinafter July 1989 meeting].

<sup>42</sup> Proposition de la Suisse, MTN.GNG/NG11/W/25, 29 June 1988.

<sup>43</sup> Note on July 1989 meeting, at para. 5.

### 3. Possible interpretations

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#### 2.2.6 The Anell Draft

At the meeting of TRIPS negotiators in October – November 1989, a number of interventions by delegations indicated a widely held perception that TRIPS should reflect a set of minimum substantive standards that would not be intended to harmonize national law.<sup>44</sup>

The composite text circulated by the Chairman (Lars E. R. Anell) of the TRIPS Negotiating Group in a July 23 1990 report on the status of work referred to implementation in the following way:

“3A. Unless expressly stated otherwise, nothing in Parts III-V of this agreement shall prevent PARTIES from granting more extensive protection to intellectual property rights than that provided in this agreement.”

#### 2.2.7 The Brussels and Dunkel Drafts

Article 1.1 appeared in the draft text transmitted on the Chairman's initiative to the Brussels Ministerial Conference in December 1990, and in its final form in the Dunkel Draft text. Both texts were essentially similar to the current provision under TRIPS.

The years during which the TRIPS negotiations took place witnessed a great deal of attention among trade scholars to the question whether the GATT 1947, and the ultimately adopted WTO Agreement, should be given “direct effect” by Members.<sup>45</sup> The focus of this inquiry was on whether persons (individual or enterprise) should be given the right to invoke WTO rights and obligations before their national courts. Despite this substantial amount of activity in the academic arena, and bearing in mind that a number of leading trade scholars substantially influenced the Uruguay Round negotiations, the question of direct effect was not a subject that drew the express attention of the TRIPS negotiators, at least as reflected in the minutes of the negotiating sessions.

### 3. Possible interpretations

#### 3.1 Article 1.1, First sentence

Members shall give effect to the provisions of this Agreement.

The interpretation of the first sentence of Article 1.1 that Members shall “give effect” to its provisions, is not a likely subject of dispute, in light of the third

<sup>44</sup> For example, the delegate from New Zealand said that the New Zealand proposal was presented as a basis for adequate minimum standards; it did not seek to constrain countries from going further than the minimum standards. Given the limited amount of time left for negotiation, his delegation felt that the Group should not attempt to be over-ambitious, either in the level of detail of commitments or through attempting to invent a whole new system. Note by the Secretariat, Meeting of Negotiating Group of 30 October-2 November 1989, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/16, 4 December 1989, at para. 3.

<sup>45</sup> See generally, *National Constitutions and International Economic Law, Studies in Transnational Economic Law* (M. Hilf, E.-U. Petersmann, ed.), Deventer, 1993.

sentence that elaborates on the “method” for giving effect. In the absence of the third sentence, argument might well be had over how the giving of effect is to be accomplished. Since the question is more specifically addressed by the third sentence, the first should be understood as serving to state the general treaty obligation to perform in good faith.

As stated above (Section 1), the obligation to “give effect” may be discharged not only through the adoption of specific statutes or administrative rules to implement TRIPS, but also where a Member elects to rely directly on the text of the Agreement as part of national law. In this case, however, it should be noted that some of the TRIPS provisions, in order to be applied to a particular case, require further concretisation through domestic legislation or case law.<sup>46</sup>

### 3.2 Article 1.1, Second sentence

Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement.

There are several interpretative issues raised by this sentence.

It appears reasonable to conclude that this provision signifies that the rules of TRIPS are intended as “minimum” standards of IPR protection. Members may adopt more extensive protection, but not less extensive protection. Note, however, that the minimum standard of protection is that “required” by the Agreement, and that the express requirements of the Agreement are often framed in rather flexible terms. In this sense, the minimum standards are subject to differential application.

The second sentence also provides that Members “shall not be obliged to” implement more extensive protection. Some Members have made demands in the context of bilateral or regional negotiations that other Members adopt so-called “TRIPS-plus” standards of protection. The express language of this second sentence makes clear that no Member is obligated by the TRIPS Agreement to adopt such TRIPS-plus standards.

An important interpretative question is whether a Member that *demands* the adoption of TRIPS-plus standards in the bilateral or regional context might be failing to perform its TRIPS Agreement obligations in good faith. The argument on behalf of a Member’s being subjected to such demands would be that it accepted its TRIPS obligations as part of a set of reciprocally negotiated commitments that represent a balance of rights and obligations on which that Member is entitled to rely. Bilateral pressure to exceed the agreed upon commitments is contrary to

<sup>46</sup> For instance, the TRIPS provisions on exceptions to exclusive rights, such as Article 30 with respect to patents, which reads: “Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.” For details on Article 30 see below, Chapter 23.

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the object and purpose of the WTO Agreement and TRIPS Agreement to provide a secure framework for the conduct of international trade relations.

A counter-argument is that each Member is sovereign and free to accept or reject additional commitments in the bilateral or regional context. Diplomacy often involves the application of pressure in some form, and the application of pressure cannot inherently be ruled out in international relations.

The WTO Appellate Body and Dispute Settlement Body (DSB) might well have to consider whether there are forms of bilateral or regional pressure that exceed the limits of good faith performance of TRIPS. Recall that in negotiations surrounding the adoption of the Doha Declaration on the TRIPS Agreement and Public Health, developing countries sought a commitment from developed Members that bilateral and regional pressures to forego TRIPS Agreement options, and to adopt TRIPS-plus measures, would be halted.<sup>47</sup> The question from a TRIPS Agreement interpretative standpoint is the threshold at which a Member would be considered “obliged” to adopt more extensive protection as the result of bilateral pressure. At what point would the pressured Member be relinquishing its sovereign capacity to freely bargain?<sup>48</sup>

Another important interpretative question raised by Article 1.1, second sentence, is at what stage more extensive protection contravenes TRIPS? The preamble of the Agreement, discussed in Chapter 1, recognizes that “measures and procedures to enforce intellectual property rights” may constitute “barriers to legitimate trade”. Yet the express text of TRIPS on substantive matters is largely devoted to setting forth minimum standards of protection, not maximum levels or upper limits. In this sense, the text of the Agreement appears to provide limited guidance regarding the kinds of more extensive IPRs substantive measures that might “contravene the Agreement”. On the other hand, the enforcement provisions of TRIPS provide that certain rights must be accorded to parties alleged to be engaged in infringing acts. So, for example, Article 42 prescribes that defendants be accorded due process rights in IPR enforcement proceedings. The adoption of more extensive protection that diminished these due process rights would contravene TRIPS. In this regard, more extensive protections should not include reducing the rights of those asserted to be engaged in infringing acts. Since the reduction of procedural rights would contravene specific provisions of TRIPS, the reference in Article 1.1 may not add very much in this regard.

#### 3.3 Article 1.1, Third sentence

Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

<sup>47</sup> See Non-paper (Africa Group et al.), “Ministerial Declaration on the TRIPS Agreement and Public Health”, 19 Sept. 2001.

<sup>48</sup> There is an analogy to the common law contract doctrine of “unconscionability” that examines whether a bargain should be voided because of undue pressure placed by one party on another.

A narrow construction of this provision might suggest that the words “appropriate method”<sup>49</sup> refer only to the legal procedure by which a Member implements its TRIPS obligations. So, for example, a Member could choose to implement TRIPS by adopting either a statute or administrative regulation, or allow the TRIPS Agreement direct effect and rely on judicial application of the Agreement.

A broader construction of this provision acknowledges the flexibility inherent in the text of TRIPS. It refers not only to method, but also to the “legal system and practice” of each Member. The method of implementation therefore may take into account each Member’s system of laws, and its practice regarding the application of those laws. Throughout the historical development of IPR law, countries have taken different approaches within their legal systems and practice to basic issues such as the scope of permissible exceptions, including the means by which exceptions are recognized. In some countries, for example, exceptions to patent rights are adopted as part of the statutory framework. In others, courts have crafted the exceptions as a matter of judicial application.<sup>50</sup> The acknowledgement that courts may be responsible for determining the permissible scope of exceptions is an inherent acknowledgement that IPR protection will vary among Members, and that Members maintain flexibility in implementing TRIPS.

There are limits to TRIPS Agreement flexibility in the sense that its rules cannot be stretched beyond reasonable good faith interpretation.<sup>51</sup>

In acknowledging the freedom of each Member to determine the appropriate method of implementing the Agreement, Article 1.1, third sentence, does not mandate that Members give it “direct” or “self-executing” effect. At the same time, that sentence does not appear to indicate that the Agreement should not be considered directly effective in countries where this is permitted. Instead, the matter is left to the constitutional system and practice of each Member state to determine.

It might be argued that because all Members need not apply TRIPS directly, it is not intended to be applied directly by any Member. This argument, which is based on reciprocity of obligation, has not traditionally persuaded courts where direct effect is practiced. Some states, such as the United Kingdom, do not allow direct effect for any treaty, and if reciprocity determined the directly applicable character of a treaty, then no treaty to which the UK is a party could be directly effective. This is not the accepted practice. The most reasonable interpretation of Article 1.1, third sentence, would appear to be that each Member is free to determine whether it will apply the Agreement directly, and that this will depend on its legal system and practice.

Where direct effect is possible, courts tend to look at whether the terms of the agreement are sufficiently precise to be applied by a court in a concrete case or controversy, and in light of the object and purpose of the agreement. The question of direct effect thus involves a “contextual analysis”. If TRIPS is given direct effect, this will provide entitlements to right holders, as well as entitlements to those

<sup>49</sup> The New Shorter Oxford English Dictionary defines “method” as a noun as “I Procedure for attaining an object.”

<sup>50</sup> See, e.g., Annex 5 to the *Canada-Generics* decision describing national approaches to regulatory review exceptions. (Canada – Patent Protection of Pharmaceutical Products, Report of the Panel, WT/DS114/R, 17 March 2000.)

<sup>51</sup> See discussion of the *India-Mailbox* case, Section 4, below.

#### 4. WTO jurisprudence

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defending against claims brought by right holders (for example, by allowing “fair use” defences). If the national legislature wants to exercise greater control over the way the TRIPS Agreement is locally applied, it may well decide not to rely on principles of direct effect that leaves issues of specific implementation up to the courts.

#### 4. WTO jurisprudence

##### 4.1 India-Mailbox

Article 1.1 was most notably discussed by the WTO Appellate Body (“AB”) in the *India-Mailbox* case.<sup>52</sup> In that case, India argued that because Article 1.1 allowed it to implement the requirement of establishing a mechanism for the receipt and preservation of patent applications (the so-called “mailbox”) in the manner it determined to be appropriate, the AB should accept its representation that the mechanism it had established was adequate within its own legal system. The AB acknowledged India’s freedom to choose the appropriate method of implementation within its own legal system, but did not accept that this precluded examining whether the means chosen by India were in fact adequate to fulfil its obligation. The AB said:

“58. ...[W]e do not agree with the Panel that Article 70.8(a) requires a Member to establish a means ‘so as to eliminate any reasonable doubts regarding whether mailbox applications and eventual patents based on them could be rejected or invalidated because, at the filing or priority date, the matter for which protection was sought was unpatentable in the country in question’ .... In our view, India is obliged, by Article 70.8(a), to provide a legal mechanism for the filing of mailbox applications that provides a sound legal basis to preserve both the novelty of the inventions and the priority of the applications as of the relevant filing and priority dates. No more.

59. But what constitutes such a sound legal basis in Indian law? To answer this question, we must recall first an important general rule in the *TRIPS Agreement*. Article 1.1 of the *TRIPS Agreement* states, in pertinent part:

... Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

Members, therefore, are free to determine how best to meet their obligations under the *TRIPS Agreement* within the context of their own legal systems. And, as a Member, India is ‘free to determine the appropriate method of implementing’ its obligations under the *TRIPS Agreement* within the context of its own legal system.

60. India insists that it has done that. India contends that it has established, through ‘administrative instructions’, a ‘means’ consistent with Article 70.8(a) of the *TRIPS Agreement*. According to India, these ‘administrative instructions’ establish a mechanism that provides a sound legal basis ...

[...]

<sup>52</sup> *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products*, Report of the Appellate Body, WT/DS50/AB/R, 19 December 1997 (“India – Mailbox”). For more details on the factual background, see Chapter 36.

64. India asserts that the Panel erred in its treatment of India's municipal law because municipal law is a fact that must be established before an international tribunal by the party relying on it. In India's view, the Panel did not assess the Indian law as a fact to be established by the United States, but rather as a law to be interpreted by the Panel. India argues that the Panel should have given India the benefit of the doubt as to the status of its mailbox system under Indian domestic law. India claims, furthermore, that the Panel should have sought guidance from India on matters relating to the interpretation of Indian law.

65. In public international law, an international tribunal may treat municipal law in several ways. Municipal law may serve as evidence of facts and may provide evidence of state practice. However, municipal law may also constitute evidence of compliance or non-compliance with international obligations [...].

66. In this case, the Panel was simply performing its task in determining whether India's 'administrative instructions' for receiving mailbox applications were in conformity with India's obligations under Article 70.8(a) of the *TRIPS Agreement*. It is clear that an examination of the relevant aspects of Indian municipal law and, in particular, the relevant provisions of the Patents Act as they relate to the 'administrative instructions', is essential to determining whether India has complied with its obligations under Article 70.8(a). There was simply no way for the Panel to make this determination without engaging in an examination of Indian law. But, as in the case cited above before the Permanent Court of International Justice, in this case, the Panel was not interpreting Indian law 'as such'; rather, the Panel was examining Indian law solely for the purpose of determining whether India had met its obligations under the *TRIPS Agreement*. To say that the Panel should have done otherwise would be to say that only India can assess whether Indian law is consistent with India's obligations under the *WTO Agreement*. This, clearly, cannot be so.

[...]

70. We are not persuaded by India's explanation of...seeming contradictions. Accordingly, we are not persuaded that India's 'administrative instructions' would survive a legal challenge under the Patents Act. And, consequently, we are not persuaded that India's 'administrative instructions' provide a sound legal basis to preserve novelty of inventions and priority of applications as of the relevant filing and priority dates."

The AB decided that freedom to determine appropriate method is not the equivalent of a right to self-certify compliance with TRIPS obligations. Compliance requires demonstration of a legally sound basis of implementation.

#### 4.2 Canada-Generics

In the *Canada-Generics* case,<sup>53</sup> Canada argued that Article 1.1, third sentence, provided it with substantial discretion in determining the scope of exceptions to patent rights, particularly when read in conjunction with Articles 7 and 8.1.

<sup>53</sup> *Canada – Patent Protection of Pharmaceutical Products*, Report of the Panel, WT/DS114/R, 17 March 2000 ("Canada-Generics").

**4. WTO jurisprudence****29**

According to the panel report, Canada argued:

"The existence of such a discretion was consistent with the provision of Article 1.1 that Members should be free to determine the appropriate method of implementing the provisions of the TRIPS Agreement, which provisions of course included Articles 7 and 30 as well as Articles 27, 28 and 33.

The provision of this discretion, in the interests of achieving an appropriate balance in each of the national legal systems, reflected Members' desire to ensure that the limitations on the scope of patent rights that existed within – or were contemplated for – their own intellectual property laws at the time the Agreement was being negotiated would be taken into account." (para. 4.13) (argument of Canada)

The European Communities argued in response:

"Article 1.1 of the TRIPS Agreement was invoked by Canada in order to establish that it had a broad *discretion* as to how to implement its obligations under the Agreement. However, Canada was wrong to consider that this provision provided a general discretion for Members to *adjust* obligations under the Agreement. It clearly stated that the protection of intellectual property under the TRIPS Agreement was to be considered a *minimum level of protection*. The flexibility which was allowed related to the *means* by which this minimum level of protection was secured in each Member's legal system." (para. 4.29)(argument of the EC)

In its determination, the Panel did not attribute significance to Article 1.1, instead focusing on Articles 7 and 8. It said:

"7.23 Canada called attention to a number of other provisions of the TRIPS Agreement as relevant to the purpose and objective of Article 30. Primary attention [footnote 385] was given to Articles 7 and 8.1... [footnote 385: Attention was also called to the text of the first recital in the Preamble to the TRIPS Agreement and to part of the text of Article 1.1. The Preamble text in question reads: 'Desiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, *and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade*;' (emphasis added by Canada)]  
[...]

7.25 The EC also referred to the provisions of first consideration of the Preamble and Article 1.1 as demonstrating that the basic purpose of the TRIPS Agreement was to lay down minimum requirements for the protection and enforcement of intellectual property rights.

[...]

7.26 Both the goals and the limitations stated in Articles 7 and 8.1 must obviously be borne in mind when doing so as well as those of other provisions of the TRIPS Agreement which indicate its object and purposes."

The panel in the *Canada-Generics* case did not specifically rely on Articles 7 and 8.1 or Article 1.1 in its determination regarding Canada's stockpiling and regulatory review exceptions.

#### 4.3 U.S. – Copyright (Homestyle Exemption)

The decision of the panel in the *U.S. – Copyright (Homestyle Exemption)* case refers to the argument of the United States in its written submission concerning Article 1.1.<sup>54</sup> In its written submission, the United States said:

“Article 1.1 of TRIPS also *emphasizes flexibility*, and provides that ‘Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.’”<sup>55</sup> (Italics added)

It is notable that the United States acknowledged that Article 1.1 “emphasizes flexibility” in defending its implementation of Article 13, TRIPS Agreement, which deals with limitations and exceptions to copyright.

### 5. Relationship with other international instruments

As noted earlier, the obligation on states to implement treaties is implicit in the obligation to perform in good faith recognized in the VCLT. The manner in which each state undertakes this obligation depends on its national constitutional arrangement and on the terms, context and object and purpose of the treaty in question.

### 6. New developments

#### 6.1 National laws

Article 1.1 addresses the method of implementing the Agreement. Since all WTO Members were required to implement at least certain parts of the Agreement upon its entry into force on 1 January 1995, a large body of national experience has already accumulated. Additional implementation obligations arose on 1 January 1996 and 1 January 2000, depending on the level of development of Members.<sup>56</sup>

Inquiry regarding national experience in the implementation of TRIPS should include studying the means by which Members have chosen to give effect to the flexibility inherent in the rules, for example, in the adoption of exceptions to general obligations. Such exceptions have already been the subject of WTO dispute settlement in the fields of patent (*Canada-Generics*) and copyright (*U.S. – Copyright (Homestyle Exemption)*).<sup>57</sup>

There have been notable instances of Members being challenged in national courts regarding compliance with TRIPS Agreement obligations. The most significant and widely reported was the case brought by 39 pharmaceutical companies against the government of South Africa regarding the Medicines and Related Substances Control Amendment Act of 1997. The legal arguments of the pharmaceutical companies included that parallel importation of medicines was not allowed

<sup>54</sup> *United States – Section 110(5) of the US Copyright Act*, Report of the Panel, WT/DS160/R, 15 June 2000 (“*U.S. – Copyright (Homestyle Exemption)*”), at para. 6.189, note 167.

<sup>55</sup> *Id.*, Annex 2.1, First Written Submission of the United States, 26 Oct. 1999, para. 21.

<sup>56</sup> For details on the TRIPS transitional periods, see Chapter 33.

<sup>57</sup> There is limited discussion of the trademark exceptions in *U.S. – Havana Club*, but that treatment was not a significant element in the AB decision.

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pursuant to Article 28. The pharmaceutical companies eventually withdrew their complaint.<sup>58</sup>

In view of the extensive national experience in implementing TRIPS, it is not feasible to provide a systematic review here. It is, however, possible to describe a few approaches Members have taken regarding whether TRIPS is directly effective (or self-executing) in domestic law. The experience of Argentina, South Africa and the United States is representative of the variety of potential approaches. The situation in the European Communities is described below in relation to regional arrangements.

### 6.1.1 Argentina

The Constitution of Argentina has been interpreted by courts as allowing the direct application of international treaties, provided that their particular provisions are precise and complete enough to be applied without further legislative developments. This doctrine has been applied in several cases where plaintiffs invoked provisions of the TRIPS Agreement, particularly articles 33 and 50 of the Agreement.<sup>59</sup> The Supreme Court confirmed this monist interpretation in several rulings,<sup>60</sup> indicating that in case of contradiction between a provision of the domestic law and a provision of TRIPS, the latter overrides and replaces the former.

### 6.1.2 South Africa

The South African Constitution has undergone several recent revisions that have affected the manner in which treaties may be given effect in national law.<sup>61</sup> The Constitution under which the Uruguay Round Agreements were approved for ratification by the South African Parliament required that a treaty be expressly adopted as part of national law to have direct effect.<sup>62</sup> The South African Parliament approved the ratification of the Uruguay Round Agreements in 1995, and did not stipulate that those agreements would have direct effect.<sup>63</sup> The subsequent

<sup>58</sup> For a description of the legal arguments in the South Africa pharmaceuticals case, see Frederick M. Abbott, *WTO TRIPS Agreement and Its Implications for Access to Medicines in Developing Countries*, Study Paper 2a for the British Commission on Intellectual Property Rights, Feb. 2002, available at <<http://www.iprcommission.org>>. For an analysis of the interplay of parallel imports and Article 28, TRIPS Agreement, see below, Chapter 5.

<sup>59</sup> See, e.g., *S.C. Johnson & Son Inc.c/Clorox Argentina S.A.s/medidas cautelares*, Cam.Fed.Civ. y Com. Sala II, 30 April 1998; *Lionel's S.R.L s/ medidas cautelares*, Cam.Fed.Civ.y Com. Sala II, 24 November 1998.

<sup>60</sup> See *Unilever NV c/Instituto Nacional de la propiedad Industrial s/denegatoria de patente*, 24.10.2000; *Dr. Karl Thomae Gesellschaft mit Beschränkter Haftung c/Instituto Nacional de la Propiedad Industrial s/denegatoria de patente*, 13.2.01. See also Correa, Carlos (2001) "El régimen de patentes tras la adopción del Acuerdo sobre los Derechos de la Propiedad Intelectual Relacionados con el Comercio", Jurisprudencia Argentina, No. 6239, Buenos Aires.

<sup>61</sup> See, e.g., John Dugard and Iain Currie, *International Law and Foreign Relations*, in Annual Survey of South African Law 1995, at 76 et seq. (Juta & Co., Limited) [hereinafter Dugard and Currie].

<sup>62</sup> This text largely followed the British model and required legislative action to give treaty provisions direct effect in national law. See *Azanian Peoples Organization v. President of the Republic*, Constitutional Court of South Africa, Case CCT17/96, decided July 25, 1996, at paras. 26-27.

<sup>63</sup> See Dugard and Currie, referring to approval of ratification of "Marrakesh Final Agreement establishing the World Trade Organization and incorporating the General Agreement on Tariffs

and present text of the Constitution allows for the possibility of direct effect without express statement when a self-executing treaty provision is not inconsistent with the Constitution or an act of Parliament.<sup>64</sup>

There is an interesting and as yet unresolved question under South African law whether a treaty adopted prior to the change in the constitutional treatment of direct effect, including TRIPS, will be evaluated under the new or old constitutional rule.

In any case, the South African Parliament adopted legislation to bring national law into compliance with the WTO Agreements, including TRIPS.<sup>65</sup> This is consistent with the type of dualist approach followed in the United States, which permits direct effect, but allows the legislature to control even directly effective treaties by subsequent legislation. The one approach does not exclude the other. That is, a treaty may be directly effective as to some issues, but controlled by legislation as to others.

### 6.1.3 United States

In the U.S. constitutional framework, the Congress has primary authority in the conduct of external trade relations, and the President and executive branch act in the field of international trade relations under both general and specific grants of authority from the Congress.<sup>66</sup> Congress authorized U.S. adherence to the WTO Agreement, including TRIPS, in the Uruguay Round Agreements Act (URAA), which also implemented the WTO Agreement in U.S. domestic law.<sup>67</sup> In connection with the congressional fast-track approval process that was used for the URAA, the executive branch submitted to the Congress a Statement of Administrative Action that was and is intended to represent the authoritative interpretation of the WTO Agreement by the executive branch both for purposes of U.S. international obligation and domestic law.<sup>68</sup> The Statement of Administrative Action was

and Trade (GATT) – *National Assembly Debates* col 653 (6 April 1995); *Senate Debates* col 554 (6 April 1995)", at page 77, and exclusion from list of treaties resolved to have direct effect by Parliament, at page 79.

<sup>64</sup> Article 231 of the Constitution of South Africa, adopted 8 May 1996, amended 11 Oct 1996 and in force from 7 Feb 1997, provides in relevant part:

Section 231 International agreements

"(4) Any international agreement becomes law in the Republic when it is enacted in law by national legislation; but a self-executing provision of an agreement that has been approved by Parliament is law in the Republic unless it is inconsistent with the Constitution or an Act of Parliament.

(5) The Republic is bound by international agreements which were binding on the Republic when this Constitution took effect."

<sup>65</sup> For a discussion of the interface of the South African Constitution, trade agreements and national trade law, see Gerhard Erasmus, *The Incorporation of International Trade Agreements into South African Law: The Extent of Constitutional Guidance*, 28 SOUTH AFRICAN YEARBOOK OF INTERNATIONAL LAW, 2003 at pgs.157-181.

<sup>66</sup> See generally, Riesenfeld and Abbott, *The Scope of U.S. Senate Control over the Conclusion and Operation of Treaties*, in Parliamentary Participation at 302.

<sup>67</sup> Uruguay Round Agreements Act [hereinafter URAA], Pub. L. 103-465, 108 Stat 4809 (1994), sec. 101(a)(1).

<sup>68</sup> Office of the U.S. Trade Representative, The Uruguay Round Agreements Act Statement of Administrative Action, at introduction. URAA, sec. 101(d).

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approved by Congress in connection with approval of the URAA.<sup>69</sup> The President accepted the WTO Agreement and related Uruguay Round Agreements following approval by Congress<sup>70</sup> and in accordance with the procedures prescribed in Article XIV of the WTO Agreement. The WTO Agreement and related agreements entered into force for the United States on January 1, 1995.<sup>71</sup>

Congress in the URAA followed a pattern that it had established in connection with the GATT Tokyo Round Agreements, by denying self-executing or direct effect to the WTO Agreement.<sup>72</sup>

The provisions of the URAA which deny the WTO Agreement self-executing or direct effect apply to all constituent components of the agreement, and so encompass TRIPS. These provisions preclude a private party's direct reliance on the WTO Agreement as the basis for civil action against a private party, or as the basis for action against the federal or state governments.

### 6.2 International instruments

### 6.3 Regional and bilateral contexts

#### 6.3.1 Regional

In an advisory opinion of 1994, the ECJ decided that the TRIPS Agreement must be adopted jointly by the member states and the EC because the member states and EC shared competence in the regulations of IPRs.<sup>73</sup> When the Council of the European Communities subsequently approved adherence to the Uruguay Round

<sup>69</sup> URAA, sec. 101(a)(2).

<sup>70</sup> URAA, sec. 101(b).

<sup>71</sup> See 19 USCA §3511 (1996).

<sup>72</sup> Section 102 of the URAA provides "(a) Relationship of Agreements to United States Law.- (1) United States Law to Prevail in Conflict.- No provision of any of the Uruguay Round Agreements, nor the application of any such provisions to any person or circumstance, that is inconsistent with any law of the United States shall have effect." Section 102 of the URAA further provides:

"(c) Effect of Agreement With Respect to Private Remedies.-

(1) Limitations.- No person other than the United States-

(A) shall have any cause of action or defense under any of the Uruguay Round Agreements or by virtue of congressional approval of such an agreement, or

(B) may challenge, in any action brought under any provision of law, any action or inaction by any department, agency, or other instrumentality of the United States, any State, or any political subdivision of a State on the ground that such action or inaction is inconsistent with such agreement.

(2) Intent of congress.- It is the intention of the Congress through paragraph (1) to occupy the field with respect to any cause of action or defense under or in connection with any of the Uruguay Round Agreements, including by precluding any person other than the United States from bringing any action against any State or political subdivision thereof or raising any defense to the application of State law under or in connection with any of the Uruguay Round Agreements-

(A) on the basis of a judgment obtained by the United States in an action brought under any such agreement; or

(B) on any other basis."

The Statement of Administrative Action is perhaps more categorical than the statute concerning the preclusion of direct effect, particularly as it might relate to actions as between private parties.

It says, *inter alia*:

"A private party thus could not sue (or defend suit against) the United States, a state or a private party on grounds of consistency (or inconsistency) with those [WTO] agreements." *Id.* at 20.

<sup>73</sup> Opinion 1/94 of 15 November 1994 [1994] ECR I-5267, para 105.

Agreements, the decision expressing that approval included a recital that it was understood the WTO Agreement would not be considered directly effective for the EC.<sup>74</sup> A recital would not ordinarily have the same legal effect as an operative provision of a decision, but would nonetheless be expected to have some influence in the interpretation of that decision and the subject treaty by the EC organs.

In 1999, the ECJ in *Portugal v. Council* decided that the WTO Agreements were not directly effective in the law of the EC.<sup>75</sup> The ECJ relied on essentially the same arguments that persuaded it in 1972 (in the *International Fruit* case) that the GATT 1947 was not directly effective in Community law.<sup>76</sup> In 2000, the ECJ decided in *Parfums Christian Dior v. Tuk Consultancy*<sup>77</sup> that its decision in *Portugal v. Council* extended to TRIPS, and that TRIPS is not directly effective as a matter of Community law.<sup>78</sup> The ECJ added, however, that because TRIPS is an international obligation of the EC, the courts should endeavour to interpret EC law consistently with TRIPS.<sup>79</sup>

For the EC, the matter is complex because it does not enjoy exclusive competence *vis-à-vis* the member states in the field of IPRs. The ECJ therefore said that the question of direct effect must be resolved as a matter of member state law as to those areas in which the member state retains exclusive competence.<sup>80</sup>

<sup>74</sup> Council Decision (of 22 December 1994) concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round multilateral negotiations (1986-1994) *Official Journal of the European Communities* L 336, 23/12/1994 p. 1-2.

<sup>75</sup> See Case C-149/96 *Portuguese Republic v Council of the European Union*, [1999] ECR I-8395, at para. 47: "It follows from all those considerations that, having regard to their nature and structure, the WTO agreements are not in principle among the rules in the light of which the Court is to review the legality of measures adopted by the Community institutions." [hereinafter *Portugal v Council*].

<sup>76</sup> See Joined Cases 21 to 24/72 *International Fruit Company N.V. v. Produktschap voor Groenten en Fruit* (No. 3) [1972] ECR 1219.

<sup>77</sup> See joined cases C-300/98 and C-392/98 *Parfums Christian Dior SA and Tuk Consultancy BV*, [2000] ECR I-11307. While in *Portugal v Council* the ECJ refused the EU member states the possibility to invoke the WTO Agreements against EC legislation, the *Christian Dior* decision concerned the denial of direct effect in favour of *individuals* (i.e. EU citizens).

<sup>78</sup> The ECJ said:

"44. For the same reasons as those set out by the Court in paragraphs 42 to 46 of the judgment in *Portugal v Council*, the provisions of TRIPS, an annex to the WTO Agreement, are not such as to create rights upon which individuals may rely directly before the courts by virtue of Community law."

<sup>79</sup> The ECJ said:

"49. [...] in a field to which TRIPS applies and in respect of which the Community has already legislated, the judicial authorities of the Member States are required by virtue of Community law, when called upon to apply national rules with a view to ordering provisional measures for the protection of rights falling within such a field, to do so as far as possible in the light of the wording and purpose of Article 50 of TRIPS, [...]"

<sup>80</sup> The ECJ said:

"49. [...] in a field in respect of which the Community has not yet legislated and which consequently falls within the competence of the Member States, the protection of intellectual property rights, and measures adopted for that purpose by the judicial authorities, do not fall within the scope of Community law. Accordingly, Community law neither requires nor forbids that the legal order of a Member State should accord to individuals the right to rely directly on the rule laid down by Article 50(6) of TRIPS or that it should oblige the courts to apply that rule of their own motion."

## 7. Comments, including economic and social implications

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In *Christian Dior*, this meant that the courts of the Netherlands would decide whether Article 50.6, TRIPS Agreement, regarding provisional measures, would be directly applied in Dutch law. The ECJ has in effect acknowledged that the question whether TRIPS is directly effective is to be determined by each WTO Member (bearing in mind that in the case of the EC the identity of that Member may differ depending on the context).

### 6.4 Proposals for review

As part of its authority under Article 68, TRIPS Agreement, (see Chapter 35 of this book) to monitor implementation of obligations and afford Members the opportunity to consult with respect to IPRs, the Council for TRIPS is reviewing implementation of TRIPS Agreement obligations. These reviews began with respect to developed Members following their general implementation deadline of 1 January 1996, and with respect to developing Members following their general implementation deadline of 1 January 2000.<sup>81</sup>

A number of developing Members have suggested an amendment or interpretation of TRIPS that would preclude the exercise of bilateral or regional pressure against Members that propose to act to take advantage of flexibility inherent in TRIPS, such as the right to issue compulsory licenses.<sup>82</sup> This type of amendment or interpretation would address Article 1.1, second sentence, providing that Members are not obliged to adopt TRIPS-plus protection.

## 7. Comments, including economic and social implications

TRIPS established minimum standards of IPR protection that are consistent with the prevailing standards in the most highly industrialized countries. Highly industrialized countries such as the United States and Japan went through prolonged periods of providing weak IPR protection to achieve their present levels of development.<sup>83</sup> TRIPS to some extent precludes today's developing countries from relying on this same model of economic transformation by setting minimum standards at levels tailored for later stages of growth. Moreover, by setting minimum standards, but not maximum standards, TRIPS leaves an opening for bilateral and regional agreements that may significantly shift the balance of economic interests to the more powerful WTO Members, thereby further exacerbating problems in the global distribution of wealth. With hindsight, developing Members might have insisted more strongly that TRIPS reflect not only the minimum standards of IPR protection, but also that any increase in those standards be negotiated only within the multilateral framework of the WTO (where developing Members have a higher degree of control over outcomes). Developing Members have a certain margin of flexibility in the implementation of TRIPS Agreement standards

<sup>81</sup> This review process is discussed in Chapter 35.

<sup>82</sup> See, e.g., proposal of developing country group for a Declaration on the TRIPS Agreement and Public Health, Section 3 above.

<sup>83</sup> See UNCTAD-ICTSD Policy Discussion Paper, Chapter 1.

which they should take great care to use and preserve.<sup>84</sup> This may not be the optimal way to address development priorities, but it is for now the one provided by TRIPS.

<sup>84</sup> The importance of understanding the flexible nature of TRIPS Agreement provisions is elaborated in various works by Profs. Carlos Correa and Jerome Reichman, see, e.g., Carlos Correa, *Integrating Public Health Concerns into Patent Legislation in Developing Countries* (South Centre 2000), and; Jerome H. Reichman, *Securing Compliance with the TRIPS Agreement After U.S. v. India*, 1 J. INT'L ECON. L. 585 (1998).

### 3: Categories of Intellectual Property Embraced by TRIPS

#### Article 1 Nature and Scope of Obligations

1. [...]
2. For the purposes of this Agreement, the term "intellectual property" refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II.
3. [...][footnote 2: In this Agreement, "Paris Convention" refers to the Paris Convention for the Protection of Industrial Property; "Paris Convention (1967)" refers to the Stockholm Act of this Convention of 14 July 1967. "Berne Convention" refers to the Berne Convention for the Protection of Literary and Artistic Works; "Berne Convention (1971)" refers to the Paris Act of this Convention of 24 July 1971. "Rome Convention" refers to the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, adopted at Rome on 26 October 1961. "Treaty on Intellectual Property in Respect of Integrated Circuits" (IPIC Treaty) refers to the Treaty on Intellectual Property in Respect of Integrated Circuits, adopted at Washington on 26 May 1989. "WTO Agreement" refers to the Agreement Establishing the WTO.]

#### Article 2 Intellectual Property Conventions

1. In respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).
2. Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.

#### 1. Introduction: terminology, definition and scope

The term "intellectual property" is capable of being defined in different ways. Article 1.2 does not define "intellectual property" as a concept, but instead refers to sections of the agreement that address "categories".

The term “intellectual property” (and “intellectual property rights”) appears mainly in the preamble and in Part III, TRIPS Agreement (relating to enforcement measures). As used in the preamble, the term refers to the general subject matter scope of the Agreement, and helps shape the context of the operative provisions of the Agreement. Part III requires Members to make available certain types of enforcement measures with respect to “intellectual property” or “intellectual property rights”. The WTO Appellate Body and the European Court of Justice have already rendered decisions that interpret “intellectual property” as used in the TRIPS Agreement.

TRIPS incorporates provisions of treaties (or conventions) that were negotiated and concluded and are now administered in the framework of WIPO. Parts of that incorporation are accomplished in Article 2. The WIPO conventions are also referenced within Part II concerning substantive obligations. TRIPS supplements and modifies certain terms of the WIPO conventions, and establishes new rules outside the existing scope of those conventions.

A number of proposals have been made to expand the subject matter scope of TRIPS, most of them coming from developing countries. These proposals would include the fields of traditional knowledge, folklore and genetic resources within the scope of TRIPS Agreement coverage.<sup>85</sup>

This chapter focuses on the overall approach of TRIPS to defining the subject matter scope of intellectual property.

## 2. History of the provision

### 2.1 Situation pre-TRIPS

Until the middle part of the twentieth century, a distinction was customarily drawn between “industrial property”, and the works of authors and artists. “Industrial property” was the province of business, and generally referred to patents and trademarks. The domain of the author and artist was protected by copyright and related rights. This distinction is reflected in the names of the two earliest multilateral agreements on the protection of intellectual property, the Paris Convention on the Protection of Industrial Property (1883) and the Berne Convention on the Protection of Literary and Artistic Works (1886).<sup>86</sup>

While this distinction was at one time grounded in commerce, the dawning of the so-called “post-industrial” era loosened the tie. The author became, for example, the computer programmer whose work underpinned a new generation of businesses. The boundaries between the industrial and artistic blurred, and the inclusive term “intellectual property” became commonly used to refer to the results of creative human endeavour protected by law.

<sup>85</sup> See Chapter 21.

<sup>86</sup> The coining of the term “intellectual property” is usually attributed to Josef Kohler and Edmond Picard in the late nineteenth century. This usage did not, however, become common for some years. See J.H. Reichman, *Charting the Collapse of the Patent-Copyright Dichotomy: Premises for a Restructured International Intellectual Property System*, 13 Cardozo Arts & Ent. L.J. 475, 480 (1995), citing among others, 1 Stephen P. Ladas, *The International Protection of Literary and Artistic Property* 9–10 (1938).

## 2. History of the provision

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The Convention Establishing the World Intellectual Property Organization (adopted 1967, entered into force 1970), defined “intellectual property” at Article 2, stating:

“(viii) ‘intellectual property’ shall include the rights relating to:

- literary, artistic and scientific works,
- performances of performing artists, phonograms, and broadcasts,
- inventions in all fields of human endeavor,
- scientific discoveries,
- industrial designs,
- trademarks, service marks, and commercial names and designations,
- protection against unfair competition, and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.”

This definition is very broad. It encompasses subject matter not traditionally protected as industrial or intellectual property (for example, scientific discoveries are generally excluded from patent protection), and it does not evidence a limitation based on creativity.<sup>87</sup> However, this definition is used in the context of establishing the objectives of a specialized agency of the United Nations, and not in the operative context of defining the scope of rights. In this sense, the WIPO Convention definition is useful as an indication of how broadly the concept of intellectual property may be extended. It provides a basis for comparison with the more limited definition adopted in the TRIPS Agreement.

The principal WIPO conventions, Paris and Berne, took substantially different approaches to defining the subject matter of the interests they regulated. Article 2 of the Berne Convention includes a detailed and comprehensive definition of authors’ and artists’ expression that is generally subject to copyright. The Paris Convention, on the other hand, contains no definition of the subject matter, including patent or trademark.<sup>88</sup>

<sup>87</sup> In its final phrase, the Convention refers to the results of “intellectual activity”. This may refer to intellectual effort, as well as creation.

<sup>88</sup> Commencing in 1985, a WIPO Committee of Experts on the Harmonization of Certain Provisions in Law for the Protection of Inventions was established under the authority of the International (Paris) Union for the Protection of Intellectual Property. As the name of this Committee implies, it was charged with seeking to establish common rules in the field of patents. See *WIPO Experts Make Progress On Patent Harmonization Draft*, BNA’s Patent, Trademark & Copyright Journal, Analysis, January 10, 1991, 41 PTCJ 231 (Issue No. 1013), Lexis/Nexis Database, at Introduction. The scope of this project was initially broad, as governments sought to agree upon harmonized substantive provisions of patent law. In late 1992, the scope of this project was limited by the removal of a number of basic articles from the negotiations. See Paris Union Assembly, Nineteenth Session, WIPO doc. P/A/XIX/3, July 31, 1992. There are a number of explanations for the shift in scope of the negotiations. Some governments had expressed the view that conclusion of the TRIPS Agreement would reduce the need for a patent harmonization agreement. It was also apparent that the United States was unwilling at that point to agree to a core demand of other governments; that it adopt a “first-to-file” approach to patenting. An agreement could not be reached without this concession from the United States. Further negotiation of an agreement of broad scope appeared futile, and in subsequent years this exercise (which culminated in the adoption of the Patent Law Treaty) was devoted to technical administrative matters.

## 2.2 Negotiating history

### 2.2.1 The involvement of WIPO

From the very outset of the TRIPS negotiations the question of the relationship between a GATT-negotiated agreement and the existing body of WIPO conventions was the subject of extensive discussion. This was closely related to the institutional question whether intellectual property rights regulation should be moved into the GATT, the answer to which was not self-evident to many delegations. There were technical questions regarding the scope and nature of the protection of IPRs afforded by the WIPO Conventions, and conceptual questions regarding the nature of the relationship between GATT and WIPO once the TRIPS negotiations were concluded.

On 13 October 1986, shortly following the adoption of the Uruguay Round mandate (15 September 1986), the Director General of WIPO Arpad Bogsch sent to the Director General of the GATT Arthur Dunkel a request that,

"WIPO . . . be fully associated in all activities that GATT will undertake in the field of intellectual property, including the question of counterfeit goods, and, in particular, that WIPO be invited to all the meetings of the Trade Negotiations Committee as well as to those of the different Committees or Working Groups that may be entrusted to deal with intellectual property questions."<sup>89</sup>

WIPO was subsequently invited to participate as observer in the formal meetings of the TRIPS Negotiating Group (TNG), a level of participation less than had been requested.<sup>90</sup>

Subsequently, the TNG requested that WIPO prepare comprehensive reports on the treatment of IPRs by existing multilateral conventions, on the status of negotiations within the WIPO framework, and on the existing treatment of IPRs within national legal systems.<sup>91</sup> In this respect, the participation-in-fact by WIPO in the activities of the TRIPS Negotiating Group was significant.

<sup>89</sup> MTN.GNG/NG11/W/1, 25 February 1987, Communication from the Director General of the World Intellectual Property Organization.

<sup>90</sup> "1. The Negotiating Group agreed to recommend to the GNG [Group of Negotiations on Goods] to invite to formal meetings of the Group international organizations which could facilitate the work of the Group by providing appropriate technical support in the field of their expertise to complement the expertise primarily available from participants. This support might take the form of oral responses during the meetings to requests through the Chairman for factual information on and clarification of matters concerning the relevant instruments and activities of any such organization, and factual papers to be prepared at the request of the Group." Note by the Secretariat, Meeting of the Negotiating Group of 10 June 1987, MTN.GNG/NG11/2, 23 June 1987.

<sup>91</sup> See, e.g., Meeting of the Negotiating Group of 23–24 Nov. 1987, MTN.GNG/NG11/5, 14 December 1987:

"37. After discussion of various suggestions for documentation for its next meeting, the Group agreed to:

1. Authorize the Chairman to invite the WIPO Secretariat:

(A) to prepare with respect to conventions administered by WIPO a factual statement providing a reference to provisions of existing international conventions providing protection for types of intellectual property included in MTN.GNG/NG11/W/12 (Section II, sub-paragraphs (i) through (vi));

## 2. History of the provision

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There was discussion throughout the TRIPS negotiating process concerning the extent to which the WIPO conventions would form the basis of TRIPS rules and how such conventions would be integrated. At the meeting of the TNG of 29 February – 3 March 1988, these issues were discussed in some detail, leading to a request for factual information from WIPO. The meeting notes indicate:

“22. Referring to documents MTN.GNG/NG11/W/19 and 21, some participants said that efforts in the Group to deal with trade problems arising in the area of norms should build on the long history of work in this area in other organizations, in particular WIPO. While international standards or norms for the protection of intellectual property rights existed in some areas, they were absent or limited in other areas. For example, it was said that, whereas the Berne Convention for the Protection of Literary and Artistic Works contained rather precise norms, those in the Paris Convention for the Protection of Industrial Property were less complete. The existing international rules did not appear sufficient to forestall the trade problems that were arising from the inadequate provision of basic intellectual property rights in many countries. There was need for further study of the provisions of existing international conventions as they related to trade problems arising, of their implementation in member countries and of the reasons why some countries had not acceded to them. Some participants wished to have further information on existing international law and on how the norms provided therein compared to norms in national legislation and the issues and suggestions put forward in the Group; for example, was the level of protection accorded under international norms based on a concept of “sufficient profit” and, if so, how was this assessed? A number of questions were put to the representative of the World Intellectual Property Organization. Suggestions were also made about papers that the WIPO Secretariat might be invited to prepare in this connection (see paragraph 39 below for the decision of the Group).

[...]

39. On the basis of a proposal put forward by Mexico and two other participants, the Negotiating Group took the annexed Decision, inviting the Secretariat of the World Intellectual Property Organization to prepare a document for it. The Chairman said that the document would be a factual document, independent of the other documents before the Group, aimed at increasing understanding and would be without prejudice to the position of any participant in the negotiations and to the scope of the Group’s Negotiating Objective. It was expected that the Chairman and the GATT secretariat would keep in contact with the Secretariat of WIPO during the preparation of the document....

40. The representative of the World Intellectual Property Organization welcomed the decision of the Group to request a major contribution from WIPO. It would be difficult for WIPO to present all the information requested in the brief time before the next meeting of the Group. WIPO would do all it could to provide the

(B) to prepare the same kind of factual information as asked for in paragraph 1(A) as far as ongoing work in WIPO is concerned for updating the Note for the Chairman on ‘Activities in Other International Organizations of Possible Interest in Relation to Matters Raised in the Group’.

maximum amount of information for the next meeting and would provide the rest as soon as possible thereafter.”<sup>92</sup>

The meeting of the TNG of 16–19 May 1988 was largely devoted to discussion of a WIPO-prepared document on the Existence, Scope and Form of Generally Internationally Accepted and Applied Standards/Norms of the Protection of Intellectual Property (MTN.GNG/NG11/W/24). In this discussion, delegates expressed views concerning the extent to which the Paris and Berne Conventions provided adequate levels of IPR protection, and on whether negotiation of changes to the rules provided by those Conventions was better undertaken in the GATT or WIPO.<sup>93</sup>

By the TNG meeting of 12–14 July 1989, delegations were engaged in detailed discussion of their perceptions regarding the adequacy of the regulatory standards found in the existing WIPO conventions.<sup>94</sup> Although there were questions raised regarding the need for rules to supplement the existing provisions of the Berne Convention, for the most part it was accepted that the Berne Convention established adequate substantive standards of copyright protection.<sup>95</sup> Discussions regarding the Paris Convention regarding patents reflected sharply divergent perspectives, largely as between developed and developing country delegations.<sup>96</sup>

### 2.2.2 The Anell Draft

The composite text prepared by the Chairman of the TNG (Lars Anell) in July 1990<sup>97</sup> included draft provisions on categories of IPRs and the relationship of the WIPO Conventions. The Anell text provided:

#### “PART II: GENERAL PROVISIONS AND BASIC PRINCIPLES

##### 1. Scope and Coverage

For the purposes of this agreement, the term “intellectual property” refers to all categories of intellectual property that are the subject of Sections ... to ... of Part III. This definition is without prejudice to whether the protection given to that subject matter takes the form of an intellectual property right.

##### 5. Intellectual Property Conventions

5A. PARTIES shall comply with the [substantive] provisions [on economic rights] of the Paris Convention (1967), of the Berne Convention (1971) [and of the Rome Convention].

<sup>92</sup> Meeting of the Negotiating Group of 29 Feb.–3 Mar. 1988 MTN.GNG/NG11/6, 8 April 1988.

<sup>93</sup> At this stage in the TRIPS negotiations, the Secretariat notes of meetings generally did not refer to the specific delegation intervening, but usually to a “participant” or “participants”. For later meetings the intervening delegations were sometimes, though not always, identified.

<sup>94</sup> Meeting of Negotiating Group of 12–14 July 1989, MTN.GNG/NG11/14, 12 Sept. 1989.

<sup>95</sup> See, e.g., paras. 23–34, *id.*

<sup>96</sup> See paras. 67–85, *id.*

<sup>97</sup> Status of Work in the Negotiating Group, Chairman’s Report to the GNG, MTN.GNG/NG11/W/76, 23 July 1990. For more details on this draft see the explanatory note on the methodology at the beginning of this volume.

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### PART III: STANDARDS CONCERNING THE AVAILABILITY, SCOPE AND USE OF INTELLECTUAL PROPERTY RIGHTS

#### SECTION 1: COPYRIGHT AND RELATED RIGHTS

##### 1. Relation to Berne Convention

1A PARTIES shall grant to authors and their successors in title the [economic] rights provided in the Berne Convention (1971), subject to the provisions set forth below.

1B PARTIES shall provide to the nationals of other PARTIES the rights which their respective laws do now or may hereafter grant, consistently with the rights specially granted by the Berne Convention.”

With respect to the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, the Anell Draft contained a proposal that would have gone beyond the corresponding obligation under the current TRIPS Agreement (see above, bracketed text under proposal 5A). This proposal would have rendered substantive obligations under the Rome Convention mandatory for all WTO Members, which is not the case under Article 2, TRIPS Agreement (see below, Section 3, for details).

#### 2.2.3 The Brussels Draft

The Anell composite text emerged with modification in the Brussels Ministerial Text in December 1990. Article 1.2 (regarding the term “intellectual property”) of the Brussels Ministerial Text and the final TRIPS Agreement text are essentially identical (although the Brussels text does not identify the relevant Section numbers).

Article 2.1 of the Brussels Ministerial Text provided:

“1. In respect of Parts II, III and IV of this Agreement, PARTIES shall not depart from the relevant provisions of the Paris Convention (1967).”

At this stage, the Paris Convention is still referenced in general terms, contrasting to the subsequent introduction of reference to specific articles. Also a “shall not depart” formula is used, instead of the later “shall comply with”.<sup>98</sup>

Article 2.2 of the Brussels Ministerial Text provided:

“2. Nothing in this Agreement shall derogate from existing obligations that PARTIES may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.”

The transition from the Anell composite text to the Brussels Ministerial Text is important. For example, the predecessor to Article 1.2 in the Anell composite text contained an additional sentence implicitly acknowledging that some of the rights regulated by the agreement might not be considered “intellectual property” in the customary sense in which that term was used (see above, Anell Draft, under paragraph 1, “Scope and Coverage”). Also, Article 2.2 of the Brussels Ministerial Text

<sup>98</sup> For an interpretation of the current TRIPS obligation to “comply” with Paris Convention provisions and the question of a possible hierarchy between the TRIPS Agreement and the Paris Convention, see below, Section 3 (Possible interpretations).

(see above) added an important provision referring to derogation from *obligations* under the WIPO Conventions, but without reference to *rights* under those Conventions (as to the differentiation in this context between “rights” on the one hand and “obligations” on the other hand, see Section 3).

#### 2.2.4 The Dunkel Draft

The only change in the Dunkel Draft and final TRIPS Agreement text is introduction in Article 2.2 of the limiting reference to “Parts I to IV” of the TRIPS Agreement as occasioning no derogation.<sup>99</sup> In practical terms, this limitation does not substantially alter the provision; the Parts not referenced under the current Article 2.2 concern provisions on dispute prevention and settlement (Part V); transitional arrangements (Part VI); and institutional arrangements and final provisions (Part VII). These provisions are unique to TRIPS and are thus unlikely to affect Members’ obligations under the referenced conventions.

### 3. Possible interpretations

#### 3.1 Article 1.2, TRIPS Agreement

For the purposes of this Agreement, the term “intellectual property” refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II.

As will be evident from the discussion that follows, “categories of intellectual property” is not synonymous with the headings of Sections 1 through 7, Part II of TRIPS. It is useful, nonetheless, to list those headings to provide a reference point for further discussion.

- “Part II – Standards Concerning the Availability, Scope and Use of Intellectual Property Rights
- Section 1 – Copyright and Related Rights
- Section 2 – Trademarks
- Section 3 – Geographical Indications
- Section 4 – Industrial Designs
- Section 5 – Patents

<sup>99</sup> The Dunkel Draft texts of Articles 1.2 and 2, TRIPS Agreement, are almost identical to the finally adopted versions, with the only changes clarifying the section numbers referenced. The Dunkel Draft text of Article 1.2, TRIPS Agreement, referred to “Sections 1 to 7 of Part II”, whereas the final TRIPS Agreement in Article 1.2 text refers to “Sections 1 through 7 of Part II” (italics added). The Dunkel Draft text of Article 2.1, TRIPS Agreement, referred to “Articles 1–12 and 19 of the Paris Convention (1967), whereas the final TRIPS Agreement text in Article 2.1 refers to “Articles 1 through 12, and Article 19, of the Paris Convention (1967)”. Similarly, Article 9.1 of the Dunkel Draft text and the TRIPS Agreement regarding Berne Convention rules are essentially identical, with only clarifying changes involving numbering. Negotiating history regarding references to WIPO Conventions for other forms of intellectual property is addressed in the relevant chapters of this book.

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Section 6 – Layout-Designs (Topographies) of Integrated Circuits

Section 7 – Protection of Undisclosed Information”

The scope of the intellectual property rights subject matter covered by TRIPS determines the extent of each Member's obligation to implement and enforce the agreement. The text indicates that Article 1.2 is intended to limit the subject matter scope of “intellectual property”. By defining “intellectual property” by reference to “all categories” of intellectual property that are the subject of certain sections of the Agreement, the definition excludes other potential categories of intellectual property that are not the subject of those sections.<sup>100</sup>

The question arises, what is meant by a “category”? “Category” is defined as a set or subset of things.<sup>101</sup> The term is inherently ambiguous because sets and subsets may be defined more broadly or narrowly depending on the intent of the creator of the set or subset. So, for example, when reference is made to the “category” of “Copyright and related rights”, that reference could be understood to refer only to the specific types of protection referred to in Section 1 of Part II, or it could be understood to refer to any type of right that “relates” to expressive works (bearing in mind that “neighbouring rights” to copyright has its own customary meaning).<sup>102</sup>

Furthermore, since the reference in Article 1.2 is to categories that “are the subject” of Sections 1 through 7, the scope of the covered matter may not be strictly limited by the general category headings of the sections. Within the sections there are references to subject matters not traditionally considered to be within those general categories. For example, *sui generis* plant variety protection is provided as an optional form of protection under Section 5 on patents. Such protection does not involve patents as such. As discussed in detail below (Section 4), the Appellate Body in its *Havana Club* case has endorsed this interpretation.

Since Article 1.2 is expressed in the form of limitation, there is good reason to conclude that the categories of intellectual property should bear a reasonably close relationship to the subject matters enumerated in Sections 1 through 7 of Part II, especially as the negotiating history of TRIPS reflects an intention to regulate those subject matter areas that were agreed upon, and not areas as to which the parties did not agree.

There are certain subject matter areas “at the border” of existing forms of intellectual property. One notable area is database protection. In this respect, it is decisive whether the database at issue, *by reason of the selection or arrangement of its contents*, constitutes an *intellectual creation*. If this is the case, it is covered

<sup>100</sup> The definition of “intellectual property” in the Convention Establishing WIPO (referred to above), by way of contrast, includes not only a list of subject matter areas designated as intellectual property, but also a general reference to “all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.” The list in the Convention Establishing WIPO includes subject matter that is not expressly covered by the TRIPS Agreement, for example, “scientific discoveries”, which are different from “inventions” that are subject to patent protection (see Article 27.1, TRIPS Agreement).

<sup>101</sup> The New Shorter Oxford English Dictionary defines “category” as “Any of a possibly exhaustive set of basic classes among which all things might be distributed”.

<sup>102</sup> See Chapter 13.

as intellectual property under Article 10.2, TRIPS Agreement.<sup>103</sup> If, on the other hand, the selection or arrangement of the contents of the database is *not creative* (e.g. a telephone book), it cannot be considered “intellectual property” in the customary sense because such compilation reflects only the expenditure of effort. The EC Database Directive provides protection of databases as a *sui generis* right distinct from interests protected by copyright.<sup>104</sup> The U.S. Supreme Court has denied copyright protection to non-creative databases. Yet such databases might be protectable to some extent by unfair competition law, and the question arises whether an interest in a database protected by unfair competition law might be considered an intellectual property right. Since non-creative databases are not the subject of Sections 1 through 7 of Part II of TRIPS, it seems that they should not be considered, for the purpose of the Agreement, “intellectual property”, even if they may be protected by unfair competition law.<sup>105</sup>

The incorporation of provisions of the WIPO conventions also raises interpretative issues regarding the categories of intellectual property covered by TRIPS. For example, Article 2.1 provides that Members shall comply with Articles 1 through 12 and 19 of the Paris Convention (in respect of Parts II, III and IV, TRIPS Agreement). TRIPS thus incorporates a definition of “industrial property” in Article 1, Paris Convention, which plays an uncertain role in respect both to interpretation of the Paris Convention and TRIPS.<sup>106</sup> According to the WTO Appellate Body (see discussion of *Havana Club* case, Section 4 below), even though trade names are not expressly addressed by any “category” of Sections 1 through 7, Part II, the TRIPS Agreement covers them because it incorporates an obligation to comply with Article 8, Paris Convention.<sup>107</sup>

Sections 1 through 7 of Part II of TRIPS are drafted with a moderate degree of specificity concerning the subject matter of intellectual property protection, and the application of TRIPS to some subject matter areas is fairly clear. However, Sections 1 through 7 are not uniformly precise, and Article 1.1 grants discretion to Members regarding the way in which subject matter may be protected. Members have some discretion in determining what types of legal entitlements will

<sup>103</sup> For details, see Chapter 9. Note that TRIPS does not provide any definition of what constitutes an “intellectual creation” within the meaning of Article 10.2.

<sup>104</sup> Under the EC Directive, such protection is granted in addition to, but independent of, copyright protection. For details on the EC Database Directive, see Chapter 9, Section 6.3 (regional contexts).

<sup>105</sup> On the other hand, as noted above, databases that do constitute an intellectual creation are covered by Article 10.2, TRIPS Agreement and therefore qualify as “intellectual property” within the meaning of Article 1.2.

<sup>106</sup> To illustrate the potential interpretative issues, Article 1(3), Paris Convention, states that:

“Industrial property shall be understood in the broadest sense and shall apply not only to industry and commerce proper, but likewise to agricultural and extractive industries and to all manufactured or natural products, for example, wines, grain, tobacco leaf, fruit, cattle, minerals, mineral waters, beer, flowers, and flour.”

If this definition were considered in connection with Article 27:2-3, TRIPS Agreement, it might be argued to inform the types of exclusions from patentability that could be adopted. It seems doubtful that such a role for Article 1(3), Paris Convention, was intended.

<sup>107</sup> In Section 6.4 below (proposals for review), the situation regarding traditional knowledge (TK) and folklore, as matters presumably outside the scope of the existing categories of intellectual property, is briefly examined. For more details, see Chapter 21.

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be considered “intellectual property” and will ultimately determine the scope of “intellectual property” within their own legal systems and practice.

**3.2 Article 2, TRIPS Agreement and other cross-referencing provisions****Article 2**

1. In respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).
2. Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.

The web of relationships between TRIPS and the various WIPO conventions is complex. It is established by a number of TRIPS provisions, including but not limited to Article 2.<sup>108</sup> The provisions of each category of intellectual property refer directly or indirectly to one or more of the WIPO conventions. Details concerning the relationships between the sets of norms are better dealt with in those chapters that address specific intellectual property subject matter. However, some general observations may be made here.

Article 2.1 provides that Members “shall comply” with Articles 1 through 12 and 19, Paris Convention, in respect to Parts II, III and IV.<sup>109</sup> The obligation to comply with the relevant Paris Convention provisions thus applies in respect to the substantive standards relating to the categories of intellectual property, to the enforcement of intellectual property rights, and to the mechanisms for acquiring those rights.<sup>110</sup>

<sup>108</sup> Footnote 2 to Article 1.3, TRIPS Agreement, as quoted above (Section 1), describes the particular version of the relevant WIPO convention to which the other provisions refer. This is necessary because the WIPO conventions are typically subject to revisions that may not be accepted by all parties to the prior version in force. In some cases, WTO Members may be parties to different revisions of the WIPO conventions. In fact, there are few instances in which Members are not parties to the versions referenced in Article 1.2, TRIPS Agreement. Article 1.3, TRIPS Agreement, also establishes rules regarding how nationals of Members are defined, in accordance with various agreements administered by WIPO.

<sup>109</sup> Part II, TRIPS Agreement, addresses “Standards Concerning the Availability, Scope and Use of Intellectual Property Rights”, Part III deals with “Enforcement of Intellectual Property Rights”, and Part IV concerns “Acquisition and Maintenance of Intellectual Property Rights and Related *Inter-Partes* Procedures”.

<sup>110</sup> Articles 1 through 12 and 19, Paris Convention, include rules regarding the basic national treatment obligation (Article 2), filing and priority rules for patents, utility models, industrial designs and trademarks (Article 4), independence of patents (Article 4bis), compulsory licensing (Article 5), protection of industrial designs (Article 5quinquies), registration and independence of trademarks (Article 6), well known marks (Article 6bis), service marks (Article 6sexies), trade names (Article 8), seizure of trademark or trade name infringing imports (Article 9), unfair competition (Article 10bis), right to enforce trademark, trade name and unfair competition in national law (Article 10ter), establishment of intellectual property offices (Article 12), and right to make special agreements (Article 19).

The parts of TRIPS not subject to Paris Convention compliance obligations relate to the general provisions and basic principles, dispute settlement, transitional arrangements and institutional arrangements.<sup>111</sup>

There is some ambiguity as to whether by obligating Members to "comply", Article 2.1 is subjecting TRIPS to the provisions of the Paris Convention. The ordinary meaning of "comply" is to conform or obey.<sup>112</sup>

The Vienna Convention on the Law of Treaties provides at Article 30:

1. [...]
2. When a treaty specifies that it is subject to, or that it is not to be considered as incompatible with, an earlier or later treaty, the provisions of that other treaty prevail.
3. When all the parties to the earlier treaty are parties also to the later treaty but the earlier treaty is not terminated or suspended in operation under article 59, the earlier treaty applies only to the extent that its provisions are compatible with those of the latter treaty."

TRIPS does not provide a general hierarchy of norms as between its rules and those of the Paris Convention. The directive that WTO Members should "comply" with relevant provisions of the Paris Convention may imply that Paris Convention rules should take priority in the event of a conflict in the sense of Article 30(2), VCLT. The alternative under Article 30(3), VCLT, that TRIPS should be considered a later in time treaty the provisions of which prevail over the Paris Convention does not appear satisfactory because of the specific incorporation of Paris Convention provisions, the obligation to "comply" with them, and the lack of express indication that Paris Convention rules are intended to be superseded by TRIPS. However, Article 2.2 needs to be considered. Article 2.2 provides:

"Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits."

By stating that nothing in Parts I to IV "shall derogate from existing obligations" under the Paris Convention, Article 2.2 might imply that TRIPS provisions may derogate from existing "rights" (but not obligations) under the Paris Convention. On the other hand, the Article 2.2 text might only be an affirmation that TRIPS was not intended to affect specific entitlements that private right holders may have obtained by virtue of operation of the Paris Convention, and not be intended to more generally address the hierarchy of norms. There was no draft text of Article 2.2 prior to the Brussels Draft, and the negotiating history offers little in the way of guidance regarding the drafters' intent.

<sup>111</sup> Part I, TRIPS Agreement, addresses "General Provisions and Basic Principles", Part V addresses "Dispute Prevention and Settlement", Part VI addresses "Transitional Arrangements" and Part VII addresses "Institutional Arrangements; Final Provisions".

<sup>112</sup> The New Oxford Shorter English dictionary defines "comply" as "1. fulfill, accomplish" and "5. act in accordance with ..."

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Provisions of the Paris Convention are referenced elsewhere in TRIPS in different ways to accomplish different results. For example, Article 16.2–3, TRIPS Agreement, applies Article *6bis*, Paris Convention, regarding well known trademarks to service marks, and modifies its application to goods and services, using a *mutatis mutandis* formula. Article 22.2(b), TRIPS Agreement, regarding geographical indications of origin incorporates Article *10bis*, Paris Convention, regarding unfair competition as one of its basic standards of protection. Article 39.1, TRIPS Agreement, refers to Article *10bis*, Paris Convention, as the basis for providing protection for undisclosed information, stating that the specific rules in Article 39.2–3 apply “In the course of ensuring effective protection … as provided in Article *10bis*”. Each of these formulas may have different legal consequences.

The formula for incorporation of Berne Convention rules is similar to that used for the Paris Convention, and is found at Article 9.1, TRIPS Agreement:

“Members shall comply with Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto. However, Members shall not have rights or obligations under this Agreement in respect of the rights conferred under Article *6bis* of that Convention or of the rights derived therefrom.”<sup>113</sup>

The methods by which provisions of other WIPO conventions are incorporated vary. For example, certain conditions, limitations and exceptions permitted by the Rome Convention are incorporated in Article 14, TRIPS Agreement (regarding performance and broadcast rights), by reference to the Rome Convention as a whole. Article 35, TRIPS, incorporates specific articles and paragraphs of the Treaty on Intellectual Property in Respect of Integrated Circuits (IPIC Treaty) and refers to additional rules of Articles 36–38, TRIPS Agreement.

The Berne, Rome and IPIC Conventions are all subject to Article 2.2, so that Members shall not derogate from existing obligations under those Conventions. Just as with respect to the Paris Convention, derogation from existing “rights” under the Paris, Rome and IPIC are not referenced, but this may not imply a general hierarchy that differentiates as between rights and obligations.

All or virtually all Members of the WTO are also parties to the Paris and Berne Conventions. As regards these two Conventions, Article 2.2 effectively states a rule of general application as among all WTO Members.<sup>114</sup> The Rome Convention has limited membership (77 members as of July 15, 2004<sup>115</sup>) and the IPIC Convention (as of August 2004) has not entered into force.<sup>116</sup> The obligation not to derogate

<sup>113</sup> The specific provisions of the Berne Convention for which a compliance obligation is established are elaborated in Chapters 7–13. Articles 1 through 21, Berne Convention, however, encompass all the substantive provisions regarding copyright subject matter. The Appendix establishes special provisions in favour of developing countries. The articles that are not referenced concern institutional arrangements. Article *6bis*, which is excluded by operation of the second sentence, establishes certain moral rights in favour of authors and artists.

<sup>114</sup> It is conceivable that a state first acceding to the WTO and TRIPS Agreement, and later joining one of the four listed Conventions, might be argued not to fall within the terms of Article 2.2, TRIPS Agreement because its other obligations were not “existing” when it acceded to the WTO or TRIPS Agreement. The prospects of this situation arising, with meaningful consequences attached, appears sufficiently remote as not to warrant treatment here.

<sup>115</sup> See <<http://www.wipo.int/treaties/en/documents/pdf/k-rome.pdf>>.

<sup>116</sup> For more details on the IPIC Convention, see Chapter 27.

from existing obligations applies only among parties to the relevant agreements. In this respect, Article 2.2 differs from Article 2.1: the obligation under the first paragraph to comply with certain obligations under the Paris Convention extends even to those WTO Members that are not parties to the Paris Convention. The same approach applies to Articles 1–21 of the Berne Convention and its Appendix (see Article 9.1, TRIPS, as quoted above) and Articles 2–7 (except Article 6.3), Article 12 and 16.3 of the IPIC Treaty (see Article 35, TRIPS). With respect to the Rome Convention, TRIPS does not contain a comparable reference to non-WTO obligations. As stated above, Article 14.6, TRIPS, declares certain *exceptions* to copyright as permitted by the Rome Convention to be applicable in the TRIPS context.<sup>117</sup> But there is no such reference to any *obligations* under the Rome Convention. Note that in this respect, one proposal under the Anell Draft sought to include a reference to the Rome Convention in the predecessor to Article 2.1 (see above, Section 2.2). This would have rendered the Rome obligations generally mandatory for all WTO Members.

As opposed to the mandatory extension of non-WTO obligations to all WTO Members under the first paragraph of Article 2, the second paragraph of the same Article applies only between those Members that are parties to the enumerated agreements. The purpose of this provision is to make sure that parties to these agreements do not take TRIPS as an excuse to no longer respect their non-WTO commitments where those go beyond the TRIPS minimum standards. In *EC-Bananas*, the arbitration award concerning, *inter alia*, the level of suspension of concessions applied to the EC, also referred to Article 2.2. In this respect, the arbitrators said:

“This provision can be understood to refer to the obligations that the contracting parties of the Paris, Berne and Rome Conventions and the IPIC Treaty, who are also WTO Members, have between themselves under these four treaties. This would mean that, by virtue of the conclusion of the WTO Agreement, e.g. Berne Union members cannot derogate from existing obligations between each other under the Berne Convention. For example, the fact that Article 9.1 of the TRIPS Agreement incorporates into that Agreement Articles 1–21 of the Berne Convention with the exception of Article 6bis does not mean that Berne Union members would henceforth be exonerated from this obligation to guarantee moral rights under the Berne Convention.”<sup>118</sup>

In the final analysis, the relationship between TRIPS, the Paris Convention and the other WIPO conventions may require the development of treaty jurisprudence specific to this set of circumstances in which the various sets of rules appear to “inform” each other.

<sup>117</sup> Article 14.6, TRIPS Agreement reads in relevant part: “Any Member may, in relation to the rights conferred under paragraphs 1, 2 and 3, provide for conditions, limitations, exceptions and reservations to the extent permitted by the Rome Convention.”

<sup>118</sup> See *European Communities – Regime for the Importation, Sale and Distribution of Bananas – Recourse to Arbitration by the European Communities under Article 22.6 of the DSU* – Decision by the Arbitrators, WT/DS27/ARB/ECU, at para. 149. For the development implications of the dispute settlement system in general and the *EC-Bananas* case in particular, see Chapter 32, Section 7.

### 3. Possible interpretations

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#### 3.3 State practice

One of the most important issues raised in regard to the relationship between TRIPS and WIPO conventions is the extent to which “state practice” under the WIPO conventions will be considered relevant to interpretation of TRIPS. Article 31(3)(b), VCLT, provides that together with the context, the following should be taken into account in the process of treaty interpretation:

“(b) any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation.”

The Paris and Berne Conventions have been in force for more than a century and a great deal of state practice under these conventions has accumulated. An argument in favour of taking such state practice into account in interpreting TRIPS is that such practice provides a substantial amount of legal texture or context to otherwise general terms. Moreover, by adopting the rules of these Conventions, TRIPS negotiators signalled that they were not intending to make a sharp break with pre-existing intellectual property legal development, albeit they did choose to modify various rules. Finally, the Paris and Berne Conventions were subject to fairly wide adherence by WTO Members even prior to conclusion of TRIPS.

On the other hand, a number of WTO Members were not parties to the Paris and Berne Conventions for much of the historical evolution of these treaties. A number of developing and least-developed WTO Members were subject to foreign rule for a good part of the period during which the Paris and Berne Conventions were evolving. The developing and least-developed Members might argue in favour of being allowed to develop their own state practice before the practices of developed Members are used to interpret TRIPS.

The VCLT rule on the use of state practice as an interpretative source does not directly address the issue whether prior practice applies to later adherents to the treaty. Under ordinary circumstances, it might be assumed that prior state practice will be taken into account since the meaning of a treaty develops over time as its parties implement it, and thereby agree on its interpretation. Each party joining the treaty would not expect to find a “blank slate” on which no prior state practice was written.

The question may well be asked, however, whether the TRIPS Agreement relationship to the Paris and Berne Conventions involves a unique situation that should lead treaty interpreters to develop a particularized jurisprudence to address this case. At a point in time, a substantial group of countries that was not party to the Paris and Berne Conventions accepted the application of the rules of those Conventions in the new TRIPS context. The object and purpose of TRIPS is different from the object and purpose of the WIPO conventions. The first has as its object and purpose the prevention of trade distortions attributable to intellectual property rules (i.e., under- and over-protection of IPRs). The latter have the purpose of promoting the protection of intellectual property. Only taken together with TRIPS can the WIPO conventions be understood in the TRIPS context. State practice under the WIPO conventions prior to application of TRIPS Agreement rules may have some relevance in the TRIPS interpretative process, but not without a second lens through which prior WIPO state practice is viewed.

State practice is always evolving, and the practices of developing and least-developed WTO Members subsequent to application of TRIPS Agreement rules will also inform interpretation of the Paris and Berne Convention rules.

In a number of instances TRIPS either supplements<sup>119</sup> or modifies<sup>120</sup> the terms of the WIPO conventions. In such cases, prior state practice under the WIPO conventions would only be relevant to the extent that TRIPS does not set out to modify that state practice.

#### 4. WTO jurisprudence

##### 4.1 Havana Club

The subject matter scope of TRIPS, including its relationship to the WIPO Conventions, is considered in some detail by the WTO Appellate Body (AB) in the *United States – Section 211 Omnibus Appropriations Act of 1998 (“Havana Club”)*<sup>121</sup> case.

The panel in the *Havana Club* case decided that trade names were not “intellectual property” within the meaning of Article 1.2 because they were not a “category” of Sections 1 through 7, Part II.<sup>122</sup> The panel said:

“We interpret the terms ‘intellectual property’ and ‘intellectual property rights’ with reference to the definition of ‘intellectual property’ in Article 1.2 of the TRIPS Agreement. The textual reading of Article 1.2 is that it establishes an inclusive definition and this is confirmed by the words ‘all categories’; the word ‘all’ indicates that this is an exhaustive list. Thus, for example, the national and most-favoured-nation treatment obligations contained in Articles 3 and 4 of the TRIPS Agreement that refer to the ‘protection of intellectual property’ would be interpreted to mean the categories covered by Article 1.2 of the TRIPS Agreement. We consider the correct interpretation to be that there are no obligations under those Articles in relation to categories of intellectual property not set forth in Article 1.2, e.g., trade names, consistent with Article 31 of the Vienna Convention.” (para. 8.26)

The panel went on to consider whether Article 2.1, by incorporating Article 8, Paris Convention (obligating parties to provide trade name protection), brought trade names within the scope of intellectual property covered by the agreement. The panel reasoned that since Article 2.1 provided that the referenced Paris Convention articles were to be complied with “in respect of” Parts II, III and IV of TRIPS, and since those parts did not refer to trade names, Article 8, Paris Convention did not add obligations regarding trade names. The panel referred to negotiating history

<sup>119</sup> For example, Article 10.1, TRIPS Agreement, provides that computer programs are protected by copyright. Prior state practice under the Berne Convention had accepted this view prior to conclusion of the TRIPS Agreement, so this article supplements the Convention by confirming that practice.

<sup>120</sup> For example, Article 16.2, TRIPS Agreement, provides new rules regarding the meaning of well-known trademarks which arguably modify Article 6bis, Paris Convention. To the extent that Article 16.2, TRIPS Agreement, creates new rules, prior state practice under Article 6bis, Paris Convention, would not be relevant to its interpretation.

<sup>121</sup> AB-2001-7, WT/DS176/AB/R, Report of the Appellate Body, 2 Jan. 2002.

<sup>122</sup> *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/R, Report of the Panel, 6 Aug. 2001.

## 4. WTO jurisprudence

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to confirm its conclusion, though the references are somewhat tangential to its reasoning.

The AB disagreed with the panel. It said:

“333. We disagree with the Panel’s reasoning and with the Panel’s conclusion on the scope of the *TRIPS Agreement* as it relates to trade names.

334. To explain, we turn first to the Panel’s interpretation of Article 1.2 of the *TRIPS Agreement*, which, we recall, provides:

For the purposes of this Agreement, the term ‘intellectual property’ refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II.

335. The Panel interpreted the phrase ‘“intellectual property” refers to all categories of intellectual property that are the *subject* of Sections 1 through 7 of Part II’ (emphasis added) as if that phrase read ‘intellectual property means those categories of intellectual property appearing in the *titles* of Sections 1 through 7 of Part II.’ To our mind, the Panel’s interpretation ignores the plain words of Article 1.2, for it fails to take into account that the phrase ‘the subject of Sections 1 through 7 of Part II’ deals not only with the categories of intellectual property indicated in each section *title*, but with other *subjects* as well. For example, in Section 5 of Part II, entitled ‘Patents’, Article 27(3)(b) provides that Members have the option of protecting inventions of plant varieties by *sui generis* rights (such as breeder’s rights) instead of through patents. Under the Panel’s theory, such *sui generis* rights would not be covered by the *TRIPS Agreement*. The option provided by Article 27(3)(b) would be read out of the *TRIPS Agreement*.

336. Moreover, we do not believe that the Panel’s interpretation of Article 1.2 can be reconciled with the plain words of Article 2.1. Article 2.1 explicitly incorporates Article 8 of the Paris Convention (1967) into the *TRIPS Agreement*.

337. The Panel was of the view that the words ‘in respect of’ in Article 2.1 have the effect of ‘conditioning’ Members’ obligations under the Articles of the Paris Convention (1967) incorporated into the *TRIPS Agreement*, with the result that trade names are not covered. We disagree.

338. Article 8 of the Paris Convention (1967) covers only the protection of trade names; Article 8 has no other subject. If the intention of the negotiators had been to exclude trade names from protection, there would have been no purpose whatsoever in including Article 8 in the list of Paris Convention (1967) provisions that were specifically incorporated into the *TRIPS Agreement*. To adopt the Panel’s approach would be to deprive Article 8 of the Paris Convention (1967), as incorporated into the *TRIPS Agreement* by virtue of Article 2.1 of that Agreement, of any and all meaning and effect. As we have stated previously:

One of the corollaries of the “general rule of interpretation” in the *Vienna Convention* is that interpretation must give meaning and effect to all the terms of a treaty. An interpreter is not free to adopt a reading that would result in reducing whole clauses or paragraphs of a treaty to redundancy or inutility.

339. As for the import of the negotiating history, we do not see it as in any way decisive to the issue before us. The documents on which the Panel relied are not conclusive of whether the *TRIPS Agreement* covers trade names. The passages

quoted by the Panel from the negotiating history of Article 1.2 do not even refer to trade names. There is nothing at all in those passages to suggest that Members were either for or against their inclusion. Indeed, the only reference to a debate about the categories for coverage in the *TRIPS Agreement* relates, not to trade names, but to trade secrets. The Panel itself acknowledged that '[t]he records do not contain information on the purpose of the addition' of the words 'in respect of' at the beginning of Article 2.1. Therefore, we do not consider that any conclusions may be drawn from these records about the interpretation of the words 'in respect of' in Article 2.1 as regards trade names.

340. Thus, in our view, the Panel's interpretation of Articles 1.2 and 2.1 of the *TRIPS Agreement* is contrary to the ordinary meaning of the terms of those provisions and is, therefore, not in accordance with the customary rules of interpretation prescribed in Article 31 of the *Vienna Convention*. Moreover, we do not believe that the negotiating history confirms, within the meaning of Article 32 of the *Vienna Convention*, the Panel's interpretation of Articles 1.2 and 2.1.

341. For all these reasons, we reverse the Panel's finding in paragraph 8.41 of the Panel Report that trade names are not covered under the *TRIPS Agreement* and find that WTO Members do have an obligation under the *TRIPS Agreement* to provide protection to trade names." [footnotes omitted, italics in the original]

The AB's analysis confirms the view that the broad subject matter headings of Sections 1 through 7, Part II, do not strictly limit the subject matter scope of "intellectual property". This does not mean that the subject matter of "intellectual property" is unlimited. In the case of trade names, they are covered subject matter because they are specifically incorporated by Article 8, Paris Convention. Nonetheless, to some extent the AB has adopted a broader rather than narrower view of the interpretation of "intellectual property" in Article 1.2.

In *Havana Club*, the AB also explained the legal relationship between TRIPS and the Paris Convention. There is nothing surprising about this explanation but, as it comes from the AB, it is worth setting out.

"123. Article 6*quinquies* [the 'as is' or 'telle quelle' rule regarding trademarks] forms part of the Stockholm Act of the Paris Convention, dated 14 July 1967. The Stockholm Act is a revision of the original *Paris Convention for the Protection of Industrial Property*, which entered into force on 7 July 1884. The parties to the Paris Convention, who are commonly described as the 'countries of the Paris Union', are obliged to implement the provisions of that Convention.

124. Article 2.1 of the *TRIPS Agreement* provides that: '[i]n respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).' Thus, Article 6*quinquies* of the Paris Convention (1967), as well as certain other specified provisions of the Paris Convention (1967), have been incorporated by reference into the *TRIPS Agreement* and, thus, the *WTO Agreement*.

125. Consequently, WTO Members, whether they are countries of the Paris Union or not, are obliged, under the *WTO Agreement*, to implement those provisions of the Paris Convention (1967) that are incorporated into the *TRIPS Agreement*. As

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we have already stated, Article 6*quinquies* of the Paris Convention (1967) is one such provision."

### 4.2 EC – Bananas

For the interpretation of Article 2.2 in this case see above, Section 3.

## 5. Relationship with other international instruments

### 5.1 WTO agreements

The general question of the proper interpretation of terms such as "intellectual property" is common to all WTO Agreements. The term "intellectual property" is unique in the sense that it is the subject of an extensive history of regulation by multilateral instruments outside the WTO context. There are analogies, nonetheless, in terms such as "national treatment" that were used in various treaty contexts (including in the Paris and Berne Conventions) well before the GATT 1947.

The determination of the subject matter scope of "intellectual property" under Article 1.2 might be relevant to other WTO agreements in the sense that subject matter not covered by TRIPS might be principally regulated by another WTO agreement.

The extensive incorporation and cross-referencing of TRIPS to the WIPO conventions is distinctive to TRIPS (among the WTO agreements).

### 5.2 Other international instruments

While TRIPS incorporates and cross-references WIPO conventions, the WIPO conventions do not in their text incorporate or cross-reference the TRIPS Agreement. However, the 1996 WIPO Copyright Treaty<sup>123</sup> includes a number of "Agreed Statements", and among these are three that refer to TRIPS.<sup>124</sup> In each case, the presumed objective of the agreed statement is to clarify that the rules adopted at WIPO are consistent with the rules of TRIPS. However, the language used to express this consistency does little to resolve ambiguity.

As example, Article 4, WIPO Copyright Treaty and Article 10.1, TRIPS Agreement, each provide that computer software is protected by copyright, but the agreements describe the subject matter of "computer programs" differently. The WIPO definition is framed more broadly ("whatever may be the mode or form

<sup>123</sup> Adopted in Geneva on 20 December 1996. The treaty is available at <<http://www.wipo.int/clea/docs/en/wo/wo033en.htm>>.

<sup>124</sup> These agreed statements are as follows:

"Agreed statements concerning Article 4: The scope of protection for computer programs under Article 4 of this Treaty, read with Article 2, is consistent with Article 2 of the Berne Convention and on a par with the relevant provisions of the TRIPS Agreement."

"Agreed statements concerning Article 5: The scope of protection for compilations of data (databases) under Article 5 of this Treaty, read with Article 2, is consistent with Article 2 of the Berne Convention and on a par with the relevant provisions of the TRIPS Agreement."

"Agreed statements concerning Article 7: It is understood that the obligation under Article 7(1) does not require a Contracting Party to provide an exclusive right of commercial rental to authors who, under that Contracting Party's law, are not granted rights in respect of phonograms. It is understood that this obligation is consistent with Article 14(4) of the TRIPS Agreement."

of their expression”), apparently providing a greater scope for the evolution of technologies that may eventually make obsolete the TRIPS Agreement reference (“whether in source or object code”). The agreed statement to Article 4, WIPO Copyright Treaty provides that the “scope of protection” under the WIPO Copyright Treaty (and the Berne Convention) is “on a par with the relevant provisions of the TRIPS Agreement”. This might be interpreted to mean that the WIPO rule does not cover evolutionary technologies otherwise not captured within the TRIPS Agreement reference to source or object code, thereby leaving any adjustments based on technological evolution in the hands of the WTO.

In addition to these recently adopted cross-references in the WIPO Copyright Treaty, there is a close and ongoing working relationship established between the TRIPS Council and WIPO. WIPO has been delegated the tasks of receiving notifications of WTO Member intellectual property laws, and of providing assistance to Members in the preparation of TRIPS-compliant legislation. In addition, WTO Members pay close attention to rule-making activities at WIPO that may affect their rights and obligations under TRIPS. These latter relationships between WIPO and the WTO are considered later in this book in the context of the Council for TRIPS.<sup>125</sup>

## 6. New developments

### 6.1 National laws

### 6.2 International instruments

#### 6.2.1 The Convention on Biological Diversity

TRIPS does not incorporate or cross-reference the Convention on Biological Diversity (CBD),<sup>126</sup> adopted prior to its conclusion (i.e. in 1992). Following proposals on this subject by a number of developing Members, WTO Ministers at the Doha Ministerial agreed that the Council for TRIPS should examine the relationship between the TRIPS Agreement and the CBD. Ministers instructed the Council for TRIPS,

“in pursuing its work programme including under the review of Article 27.3(b), the review of the implementation of the TRIPS Agreement under Article 71.1 and the work foreseen pursuant to paragraph 12 of this Declaration, to examine, *inter alia*, the relationship between the TRIPS Agreement and the Convention on Biological Diversity, the protection of traditional knowledge and folklore, and other relevant new developments raised by Members pursuant to Article 71.1. In undertaking this work, the TRIPS Council shall be guided by the objectives and principles set out in Articles 7 and 8 of the TRIPS Agreement and shall take fully into account the development dimension.”<sup>127</sup>

<sup>125</sup> See Section 3 of Chapter 35.

<sup>126</sup> The English text of the Convention is available at <<http://www.biodiv.org/doc/legal/cbd-en.pdf>>.

<sup>127</sup> See the Ministerial Declaration of 14 November 2001, WT/MIN(01)/DEC/W/1, paragraph 19.

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Substantive aspects of the TRIPS-CBD relationship are discussed later in this book.<sup>128</sup> Since this work programme is at its initial stages, it is premature to indicate the legal mechanism by which the CBD ultimately may be incorporated or cross-referenced by the TRIPS Agreement.

### 6.2.2 WIPO patent and trademark activities

WIPO has initiated a significant set of activities (the WIPO Patent Agenda) regarding the international patent system with the objective of determining whether amendments or supplements to existing patent rules would be necessary or useful. This project might lead to proposals for revision of the Patent Cooperation Treaty (PCT).<sup>129</sup> Perhaps more likely such changes would be proposed as a new agreement concerning the approximation or harmonization of substantive patent law. Whatever form such developments in the field of patents might take, they will have implications for the TRIPS Agreement, potentially of a far reaching nature. There are Standing Committees on the Law of Patents and Trademarks at WIPO, each of which is considering the proposal of new substantive rules. It is premature at this stage to offer concrete observation on how the results of these work programmes might be integrated, either formally or informally, with TRIPS.

## 6.3 Regional and bilateral contexts

### 6.3.1 Regional

The European Court of Justice (ECJ) directly addressed interpretation of “intellectual property” in Article 1.2 in its *Parfums Christian Dior* decision.<sup>130</sup> It was called upon to decide whether EU member state (national) legislation that protects industrial designs through general civil “unlawful competition” rules is within the scope of Article 50 that applies to “intellectual property rights”. Only if the unlawful competition rules establish an “intellectual property right” would the enforcement rules of TRIPS (in this case, Article 50.1) be applicable in the member state court. The ECJ held that “industrial design” protection was clearly a category of “intellectual property” because it is enumerated as such in Section 4, Part II, and that it was for WTO Members to decide what national rules would be used to protect that intellectual property (and so establish an “intellectual property right”) in the context of implementing TRIPS in their own legal systems (in the sense of Article 1.1, TRIPS). It said:

“Interpretation of the term ‘intellectual property right’

50. The third question in Case C-392/98 is designed to ascertain whether the right to sue under general provisions of national law concerning wrongful acts, in particular unlawful competition, in order to protect an industrial design against

<sup>128</sup> For details on the various proposals submitted in this respect to the Council for TRIPS see Chapter 21, Section 3.5.

<sup>129</sup> See Correa and Musungu, *The WIPO Patent Agenda: The Risks for Developing Countries*, Working Paper no. 12, South Centre, 2002.

<sup>130</sup> See joined cases C-300/98 and C-392/98 *Parfums Christian Dior SA and Tuk Consultancy BV*, [2000] ECR I-11307. On this decision, see also Chapter 2, Section 6.3.

copying is to be classified as an 'intellectual property right' within the meaning of Article 50(1) of TRIPs.

51. Thus defined, the question falls into two parts. The first issue is whether an industrial design, such as that in question in the main proceedings, falls within the scope of TRIPs. If it does, it must then be determined whether the right to sue under general provisions of national law, such as those relied on in the main proceedings, in order to protect a design against copying constitutes an "intellectual property right" within the meaning of Article 50 of TRIPs.

52. As regards the first issue, the national court has correctly pointed out that, according to Article 1(2) of TRIPs, the term 'intellectual property' in Article 50 refers to all categories of intellectual property that are the subject of Sections 1 to 7 of Part II of that agreement. Section 4 concerns "industrial designs".

53. Article 25 sets out the conditions for protection of an industrial design under TRIPs. Article 26 concerns the nature of the protection, possible exceptions and the duration of the protection.

54. It is for the national court to determine whether the industrial design at issue in the main proceedings satisfies the requirements laid down in Article 25.

55. As to the second issue, TRIPs contains no express definition of what constitutes an 'intellectual property right' for the purpose of that agreement. It is therefore necessary to interpret this term, which appears many times in the preamble and in the main body of TRIPs, in its context and in the light of its objectives and purpose.

56. According to the first recital in its preamble, the objectives of TRIPs are to 'reduce distortions and impediments to international trade, ... taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade'. In the second recital, the Contracting Parties recognise the need for new rules and disciplines concerning:

'(a) [...]

(b) the provision of adequate standards and principles concerning the availability, scope and use of trade-related intellectual property rights;

(c) the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems;

[...]'

57. In the third and fourth recitals, the Contracting Parties recognise 'the need for a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods and the fact that 'intellectual property rights are private rights'.

58. Article 1(1), concerning the 'nature and scope of obligations', provides that members are to be free to determine the appropriate method of implementing the provisions of TRIPs within their own legal system and practice.

59. Article 62, which constitutes Part IV of TRIPs, entitled 'Acquisition and maintenance of intellectual property rights and related *inter partes* procedures', provides in the first and second paragraphs that the Contracting Parties may make the

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acquisition or maintenance of intellectual property rights conditional on compliance with reasonable procedures and formalities, including procedures for grant or registration. Such procedures are not, however, an essential requirement for the acquisition or maintenance of an intellectual property right within the meaning of TRIPs.

60. It is apparent from the foregoing provisions as a whole that TRIPs leaves to the Contracting Parties, within the framework of their own legal systems and in particular their rules of private law, the task of specifying in detail the interests which will be protected under TRIPs as 'intellectual property rights' and the method of protection, provided always, first, that the protection is effective, particularly in preventing trade in counterfeit goods and, second, that it does not lead to distortions of or impediments to international trade.

61. Legal proceedings to prevent alleged copying of an industrial design may serve to prevent trade in counterfeit goods and may also impede international trade.

62. It follows that a right to sue under general provisions of national law concerning wrongful acts, in particular unlawful competition, in order to protect an industrial design against copying may qualify as an 'intellectual property right' within the meaning of Article 50(1) of TRIPs.

63. It follows from all of the foregoing considerations that the answer to the third question in Case C-392/98 must be that Article 50 of TRIPs leaves to the Contracting Parties, within the framework of their own legal systems, the task of specifying whether the right to sue under general provisions of national law concerning wrongful acts, in particular unlawful competition, in order to protect an industrial design against copying is to be classified as an 'intellectual property right' within the meaning of Article 50(1) of TRIPs."

### 6.4 Proposals for review

A number of developing countries are pressing to expand the subject matter scope of TRIPS to include fields such as traditional knowledge (TK), folklore and related interests. In addition, a number of developing countries are pressing to expand the recognition by TRIPS of their interests in genetic resources. The latter question is related to negotiations concerning the relationship between TRIPS and the CBD (see above, Section 6.2).

TK such as medicinal uses of plant varieties is often considered not to fall within the existing "categories" of intellectual property protection. For example, such knowledge may have been known to some portion of the public and therefore not qualify for patent protection (because of the absence of novelty). Folklore has often been known within a culture for many years, and therefore may not be considered to be newly subject to copyright. If these kinds of interests are to be covered by TRIPS, it may be necessary to expand the categories of intellectual property, or at least expand the subject matter addressed by the existing categories.<sup>131</sup>

<sup>131</sup> For a detailed analysis of possible ways of protecting TK and folklore, see G. Dutfield, *Protecting Traditional Knowledge and Folklore – A review of progress in diplomacy and policy formulation*, UNCTAD-ICTSD, Geneva, June 2003. The paper is also available at <[http://www.ictsd.org/pubs/ictsd\\_series/ips/CS.dutfield.pdf](http://www.ictsd.org/pubs/ictsd_series/ips/CS.dutfield.pdf)>.

At the Doha Ministerial in November 2001, Ministers instructed the TRIPS Council to examine the protection of traditional knowledge and folklore (see above, Section 6.2).

As noted above, the TRIPS Council is considering the relationship between TRIPS and the CBD. There are no present proposals to review the categories of intellectual property covered by the TRIPS Agreement, or the relationship between TRIPS and the WIPO conventions.

## 7. Comments, including economic and social implications

It is not easy to generalize regarding the effects on developing countries of expanding or limiting the subject matters falling within the scope of TRIPS. Generally speaking, as the preponderance of intellectual property rights are held by developed country actors, the developing countries are economically disadvantaged by increased rent payments arising when such intellectual property falls within the scope of protection.<sup>132</sup> In this regard, an approach limiting the subject matter scope of intellectual property is favourable to developing country interests. However, the principal forms of intellectual property in which developed country persons have ownership interest already are within the scope of Article 1.2. The developing countries are already subject to broad subject matter coverage in fields of intellectual property where developed country ownership predominates.

The fields of traditional knowledge and folklore, and genetic resources, are ones in which developing countries have significant strength. The argument might well be made that developing countries have an interest in expanding the existing categories of intellectual property protection in TRIPS to cover such fields. However, there are risks to ventures such as this. Once the door is open to expanding TRIPS Agreement coverage, it may be difficult to limit the accretion of rights.

The TRIPS Agreement might have repeated the rules of the WIPO Conventions, rather than incorporating or cross-referencing them. Yet it is doubtful that the choice of incorporation or cross-reference in itself had significant implications for developing country interests. It is possible that by maintaining WIPO as a forum for the progressive development of intellectual property law, the developed countries left an avenue for ratcheting-up levels of protection in the absence of a WTO consensus. This, however, is more a question of institutional organization and competence than of the relationship among legal agreements.

<sup>132</sup> One of the arguments advanced by developed countries is that developing countries may have access to a larger pool of creative matter because their increased rent payments result in a higher level of investment in the developed countries. However, in the absence of providing intellectual property protection for creative activity undertaken in the developed countries, they would have access to the pool of creative matter from the developed countries, less whatever increment might be generated as a result of their own increased rent payments.

## 4: Basic Principles

### Article 3 National Treatment

1. Each Member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection\* of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits. In respect of performers, producers of phonograms and broadcasting organizations, this obligation only applies in respect of the rights provided under this Agreement. Any Member availing itself of the possibilities provided in Article 6 of the Berne Convention (1971) or paragraph 1(b) of Article 16 of the Rome Convention shall make a notification as foreseen in those provisions to the Council for TRIPS.
2. Members may avail themselves of the exceptions permitted under paragraph 1 in relation to judicial and administrative procedures, including the designation of an address for service or the appointment of an agent within the jurisdiction of a Member, only where such exceptions are necessary to secure compliance with laws and regulations which are not inconsistent with the provisions of this Agreement and where such practices are not applied in a manner which would constitute a disguised restriction on trade.

[Footnote]\*: For the purposes of Articles 3 and 4, "protection" shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement.

### Article 4 Most-Favoured-Nation Treatment

With regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members. Exempted from this obligation are any advantage, favour, privilege or immunity accorded by a Member:

- (a) deriving from international agreements on judicial assistance or law enforcement of a general nature and not particularly confined to the protection of intellectual property;
- (b) granted in accordance with the provisions of the Berne Convention (1971) or the Rome Convention authorizing that the treatment accorded be a function not of national treatment but of the treatment accorded in another country;
- (c) in respect of the rights of performers, producers of phonograms and broadcasting organizations not provided under this Agreement;
- (d) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members.

#### Article 5 Multilateral Agreements on Acquisition or Maintenance of Protection

The obligations under Articles 3 and 4 do not apply to procedures provided in multilateral agreements concluded under the auspices of WIPO relating to the acquisition or maintenance of intellectual property rights.

## 1. Introduction: terminology, definition and scope

The national treatment and most favoured nation (MFN) principles have as their objective the creation of non-discriminatory international legal arrangements. The national treatment and MFN principles are cornerstones of the WTO legal system, including TRIPS. The national treatment principle is also at the core of the Paris and Berne Conventions.

### 1.1 National treatment

Briefly stated, the national treatment principle requires each WTO Member to treat nationals of other Members at least as well as it treats its own nationals in relation to the protection of intellectual property. National treatment obligations in TRIPS differ from the national treatment obligations established by Article III, GATT 1994. The GATT addresses trade in goods, and in that context national treatment requires non-discriminatory treatment of "like products", or tangible things. Intellectual property rights are held by persons (whether natural or juridical), and TRIPS Agreement national treatment rules require non-discriminatory treatment of persons. In this regard, the national treatment principle of the TRIPS Agreement is analogous to that of the General Agreement on Trade in Services (GATS) (Article XVII) which applies to service suppliers (that is, persons providing

## 1. Introduction: terminology, definition and scope

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services). Note, however, that the GATS national treatment rules operate in a different manner than those of TRIPS.<sup>133</sup>

Application of the national treatment principle is not so straightforward. Much of GATT 1947 jurisprudence was devoted to refining national treatment rules, including ways to determine what constitutes a “like product”. Dispute settlement under GATT 1994 continues to address complex national treatment questions in relation to trade in goods.

GATT-WTO jurisprudence has recognized two types of discrimination: *de jure* and *de facto*. When legal rules distinguish in their express terms between foreign and local nationals, this may constitute discrimination as a matter of law, or *de jure* discrimination (if the distinctions are not justified by non-discriminatory purposes). On the other hand, legal rules that use identical terms to address foreign and local nationals may appear neutral, but in fact produce discriminatory results through operation in practice. When facially neutral legal rules are discriminatory in effect, this is referred to as *de facto* discrimination. The TRIPS Agreement national treatment provisions encompass both *de jure* and *de facto* discrimination.

The national treatment principle is set out in TRIPS using a different legal formula than is used in the WIPO conventions (see Section 3.1.2, below). The national treatment provisions in the WIPO conventions are incorporated by reference in TRIPS. The differences are not great, and their practical significance is uncertain. There are several relatively complex exceptions from national treatment in the various WIPO conventions, and these are largely incorporated in TRIPS.

### 1.2 Most-favoured-nation treatment

The MFN principle requires each Member to treat nationals of all other Members on an equivalent basis in relation to intellectual property protection. The MFN principle was not traditionally incorporated in the WIPO Conventions. It was assumed that WIPO members would not grant intellectual property rights protection to foreign nationals more extensive than the protection granted to local nationals. In this setting, a national treatment obligation would place all foreigners on the same plane. As bilateral pressures mounted in the late 1980s to increase IPR protection, Uruguay Round negotiators became concerned that some countries were indeed granting IPR privileges to foreign nationals more extensive than the rights granted to their own nationals. This focused attention on incorporating an MFN principle in TRIPS, so that all Members would obtain an equivalent level of protection when more extensive protection was granted to foreigners.

The MFN principle in TRIPS is particularly important because of its relationship to regional integration arrangements. Article 4 was drafted in a manner that was intended to accommodate the interests of certain pre-existing regional arrangements. However, the legal formula used in Article 4 (d) to establish that accommodation is oddly suited to such a purpose (see Section 3.2, below). The regional arrangements affected by it have notified the Council for TRIPS of potentially

<sup>133</sup> Under the GATS a Member's national treatment obligations are defined by its Schedule of Commitments that may include exceptions and limitations on a sector by sector basis.

broad claims of exemption, though the effect of these claims in practice remains to be determined.

Articles 3, 4 and 5 were not subject to the transition arrangements in favour of developing country and least developed country Members, and so became applicable to them on January 1, 1996 (see Articles 65.2 and 66.1, TRIPS Agreement).<sup>134</sup>

## 2. History of the provision

### 2.1 Situation pre-TRIPS

The national treatment principle was incorporated in bilateral friendship and commerce agreements during the nineteenth century, prior to negotiation of the Paris and Berne Conventions.<sup>135</sup> The most favoured nation treatment principle appeared in trade agreements during the eighteenth century.<sup>136</sup> In the trade and investment context, these two principles provide the foundation for liberal market access by prohibiting discrimination against imports and investment from countries in whose favour they operate. In the intellectual property context, these principles promote market access in favour of foreigners by providing that their legal interests should be protected at least as well as nationals of the host country, and by attempting to assure an equality of protection among trade and investment partners.

National treatment and “unconditional” MFN treatment do not require the grant of equivalent rights or favours in exchange for non-discriminatory treatment.<sup>137</sup> However, it is possible to grant national treatment subject to exceptions,<sup>138</sup> and it is possible to place conditions on MFN treatment (such that a country may agree to provide equal treatment to all its trading partners, but only if those partners agree to match concessions it provides).

The concepts of national treatment and MFN may be usefully compared with the concept of “reciprocity”. When legal relations are based on reciprocity, a state is expected to grant rights or favours only in exchange for rights or favours from other states. A privilege may be denied in the absence of equivalent or reciprocal treatment. There are a few provisions in the WIPO conventions that allow for

<sup>134</sup> For a detailed analysis of the TRIPS transitional periods, see Chapter 33.

<sup>135</sup> See, e.g. Belgian-American Diplomacy Treaty of Commerce and Navigation: November 10, 1845, at art. 1; Swiss-American Diplomacy Convention of Friendship, Commerce and Extradiation Between the United States and Switzerland; November 25, 1850, at art. 1. <http://www.yale.edu/lawweb/avalon/>. National treatment provisions were also incorporated in bilateral copyright treaties pre-dating the Berne Convention. See Samuel Ricketson, *The Birth of the Berne Union, THE CENTENARY OF THE BERNE CONVENTION, CONFERENCE* (Intellectual Property Law Unit, Queen Mary College, University of London and British Literary and Artistic Copyright Association London, April 17–18, 1986).

<sup>136</sup> See, e.g., Treaty of Amity and Commerce Between The United States and France; February 6, 1778, at arts. 3 & 4. See also Convention to Regulate Commerce between the United States and Great Britain (1815), at Article 2; <http://www.yale.edu/lawweb/avalon/>.

<sup>137</sup> “Conditional MFN” means that a country accepts to provide equivalent treatment to each of its trading partners, provided that those trading partners agree to provide equivalent concessions to it (“reciprocity”, see below). By way of contrast, it is one of the core elements of unconditional MFN and national treatment to operate on a non-reciprocity basis.

<sup>138</sup> As is done in the General Agreement on Trade in Services (GATS).

differential treatment of foreigners based on "material reciprocity".<sup>139</sup> It is of some interest that trade negotiating rounds in the GATT 1947 and WTO are conducted on the basis of reciprocity, while the results of those negotiations are embodied in agreements that operate on principles of non-discrimination.

## 2.2 Negotiating history

### 2.2.1 Overview of the initial U.S. and EC positions

The initial U.S. proposal for negotiation of a TRIPS Agreement did not explicitly discuss the national and MFN principles, although it did refer to examining the existing international agreements concerning the protection of intellectual property.<sup>140</sup> The first proposal from the EC regarding substantive standards, however, made significant reference to the national treatment and MFN principles.<sup>141</sup>

The EC proposal stated:

"6.(ii) Two fundamental principles are those of most favoured nation treatment and of national treatment. These GATT principles concern the treatment given to goods whereas an agreement on intellectual property rights would be concerned with the protection of the rights held by persons. Bearing this difference in mind, these principles should constitute essential elements of a GATT Agreement on trade related aspects of intellectual property rights."<sup>142</sup>

<sup>139</sup> For example, Article 7(8), Berne Convention, limits the term of copyright to that of the country of origin of the work, unless the country where protection is claimed authorizes longer protection. Article 14<sup>ter</sup>, Berne Convention, limits the obligation to protect "droit de suite" depending on the extent of protection in the artist's country of origin.

<sup>140</sup> Suggestion by the United States for Achieving the Negotiating Objective, United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/14, 20 Oct. 1987, Nov. 3, 1987.

<sup>141</sup> Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade Related Aspects of Substantive Standards of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/26, July 1988, at III.D.6.

<sup>142</sup> The EC proposal continued:

– under the most favoured nation treatment principle, parties would be obliged to accord nationals and residents of other parties any advantage relating to the protection and enforcement of intellectual property rights granted to the nationals and residents of any other country.

It will however, be necessary to define certain implications and limitations of the MFN principle. In particular, advantages which accrue to a party by virtue of an intellectual property convention and which have not been incorporated in the GATT Agreement should only have to be granted to nationals or residents of signatories of such conventions....

– the national treatment principle would require that nationals or residents of another signatory of the GATT Agreement should be granted protection which would not be less favourable than the one granted under like circumstances to nationals or residents of the importing country. This principle would not have to be granted with regard to aspects of protection exclusively based on an intellectual property rights convention to which the other party concerned had not adhered.

In applying these GATT principles, account must be taken of the fact that the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works also provide for the national treatment for nationals of signatories of those conventions. The application of these GATT principles should be without prejudice to the full application of this fundamental principle of the Paris and Berne Conventions." *Id.*

## 2.2.2 National treatment

**2.2.2.1 The Anell Draft.** The proposition to include a national treatment standard in TRIPS was not in itself contentious. Negotiations rather focused on more detailed aspects of the mechanics of incorporation. It was noted, for example, that the national treatment standard in the Paris Convention (Article 2(1) and Article 3)<sup>143</sup> requires equivalent treatment for foreign nationals, and the Berne Convention appears to do the same (Article 5(1) and (3)).<sup>144</sup> On the other hand, the GATT Article III national treatment is based on a “no less favourable” standard,<sup>145</sup> implying that imported products may be treated preferably to local products. Some negotiators pointed out that adoption of a strict equivalent treatment standard in TRIPS might eliminate the need for an MFN provision since each member would be required to treat nationals of all Members the same.<sup>146</sup> However, it appears that most negotiators supported the formula used in the GATT 1947 that would allow preferential treatment of foreign nationals.<sup>147</sup>

There was discussion of the extent to which the national treatment principle would extend to government regulation of the “use” of intellectual property, in addition to regulation of the grant and enforcement of rights.<sup>148</sup> This discussion was inconclusive. Negotiators appeared to agree that the national treatment standard

<sup>143</sup> The Paris Convention provides in relevant part:

Article 2

(1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, *they shall have the same protection as the latter*, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

...

Article 3

Nationals of countries outside the Union who are domiciled or who have real and effective industrial or commercial establishments in the territory of one of the countries of the Union shall be *treated in the same manner* as nationals of the countries of the Union. [italics added]

<sup>144</sup> Article 5, Berne Convention, provides:

(1) Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, *the rights which their respective laws do now or may hereafter grant to their nationals*, as well as the rights specially granted by this Convention.

...

(2) Protection in the country of origin is governed by domestic law. However, when the author is not a national of the country of origin of the work for which he is protected under this Convention, he shall enjoy in that country *the same rights as national authors*. [italics added]

<sup>145</sup> GATT 1947 Article III provides, for example:

4. The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment *no less favourable* than that accorded to like products of national origin in respect of all laws, regulations and requirements ... [emphasis added]

<sup>146</sup> Meeting of Negotiating Group of 5–6 January 1990, Note of the Secretariat, MTN.GNG/NG11/18, 27 February 1990, at para. 20.

<sup>147</sup> *Id.*, at para. 19.

<sup>148</sup> *Id.*

should apply at least to those intellectual property rights covered by TRIPS, and also that existing exceptions to national treatment found in the WIPO conventions should be recognized.<sup>149</sup> The view was expressed that *de facto* discrimination should be covered as well as *de jure* discrimination.

The draft composite text prepared by TNG Chairman Anell reflected the points made in the discussions. It provided:

#### “6. National Treatment

6.1 Each PARTY shall accord to the nationals of other PARTIES [treatment no less favourable than] [the same treatment as] that accorded to the PARTY's nationals with regard to the protection of intellectual property, [subject to the exceptions already provided in, respectively,] [without prejudice to the rights and obligations specifically provided in] the Paris Convention [(1967)], the Berne Convention [(1971)], [the Rome Convention] and the Treaty on Intellectual Property in Respect of Integrated Circuits (note 2). [Any PARTY not a party to the Rome Convention and availing itself of the possibilities as provided in Article 16(1)(a)(iii) or (iv) or Article 16(1)(b) of that Convention shall make the notification foreseen in that provision to (the committee administering this agreement).]

(note 2) For the first two and the last of these conventions, the exceptions have been listed by WIPO in document NG11/W/66. For the Rome Convention, the relevant provisions would appear to be Articles 15, 16(1)(a)(iii) and (iv) and (b), and 17."<sup>150</sup>

**2.2.2.2 The Brussels Draft.** The draft text of the TRIPS Agreement transmitted to the Brussels Ministerial Conference on the Chairman Anell's initiative in December 1990 included a draft national treatment provision approximating the Dunkel Draft text (see below), and the finally adopted TRIPS Agreement.<sup>151</sup> The Brussels

<sup>149</sup> *Id.*

<sup>150</sup> Status of Work in the Negotiating Group, Chairman's Report to the GNG, MTN.GNG/NG11/W/76, 23 July 1990. The Anell text continued:

“6.2A Any exceptions invoked in respect of procedural requirements imposed on beneficiaries of national treatment, including the designation of an address for service or the appointment of an agent within the jurisdiction of a PARTY, shall not have the effect of impairing access to, and equality of opportunity on, the market of such PARTY and shall be limited to what is necessary to secure reasonably efficient administration and security of the law.

6.3A Where the acquisition of an intellectual property right covered by this agreement is subject to the intellectual property right being granted or registered, PARTIES shall provide granting or registration procedures not constituting any *de jure* or *de facto* discrimination in respect of laws, regulations and requirements between nationals of the PARTIES.

6.4A With respect to the protection of intellectual property, PARTIES shall comply with the provisions of Article III of the General Agreement on Tariffs and Trade, subject to the exceptions provided in that Agreement. [note 3]

[note 3] This provision would not be necessary if, as proposed by some participants, the results of the negotiations were to be an integral part of the General Agreement on Tariffs and Trade.”

<sup>151</sup> The Brussels text did not include the final TRIPS text, “In respect of performers, producers of phonograms and broadcasting organizations, this obligation only applies in respect of rights provided under this Agreement” (Article 3.1, second sentence). As noted in the text below, footnote 3 was added at the Dunkel Draft stage. Draft Final Act Embodying the Results of the Uruguay Round

Draft on national treatment adopted the “no less favourable” treatment option, and the “subject to” language regarding existing exceptions.

**2.2.2.3 The Dunkel Draft.** The Dunkel Draft text added a sentence concerning the rights of performers, producers of phonograms and broadcast organisations.<sup>152</sup> It also added footnote 2 (which then became footnote 3 under the final version of TRIPS) following the word “protection”, stating:

“For the purposes of Articles 3 and 4 of this Agreement, protection shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement.”

The added footnote is significant in that it extends the scope of the national treatment obligation to the use of intellectual property rights, and in that sense addresses the subject of market access. WTO Members are obligated not only to allow foreign nationals to obtain and maintain IPRs, but must also allow them to exercise those rights at least as favourably as local nationals.

The final TRIPS Agreement text of Article 3 made no material changes to the Dunkel Draft text.

### 2.2.3 MFN treatment

**2.2.3.1 The EC and U.S. proposals.** Although a number of developing countries questioned the need for including an MFN obligation in the TRIPS Agreement, particularly as the prospective list of exceptions expanded,<sup>153</sup> its inclusion was not a major source of controversy. The main points of discussion concerned whether and how exceptions to the basic concept would be included.

There was some support for an approach to MFN that would have provided for a “weaker” standard that would have prohibited only arbitrary or unjustifiable discrimination among Members, but without additional exceptions.<sup>154</sup> Most Members, however, appeared to share the view that the basic MFN principle in TRIPS should reflect the approach taken in the GATT 1947, that is, that rights or concessions granted to one Member should immediately and unconditionally be granted to all WTO Members, with limited exceptions.<sup>155</sup>

of Multilateral Trade Negotiations, Revision, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 Dec. 1990.

<sup>152</sup> *Id.* The Dunkel Draft referred to “broadcast organizations” rather than “broadcasters”.

<sup>153</sup> See, e.g., Meeting of the Negotiating Group of 1 November 1990, Note of the Secretariat, MTN.GNG/NG11/27, 14 November 1990, at para. 4, at which a delegate speaking on behalf of a number of developing countries “said that he was still not convinced of the need to include the mfn principle in the text, since it was alien to the intellectual property system, and would in any case be rendered meaningless by the growing list of exceptions written into it.”

<sup>154</sup> Meeting of Negotiating Group of 5-6 January 1990, Note of the Secretariat, MTN.GNG/NG11/18, 27 February 1990, at para. 20.

<sup>155</sup> *Id.*

## 2. History of the provision

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A principal point of debate concerned the extent to which regional arrangements such as customs unions and free trade areas might be exempt from MFN obligations, as well as how existing bilateral agreements (particularly in the field of geographical indications) would be addressed. The European Community had a particular interest in this subject matter as it was progressively attempting to integrate its internal intellectual property framework. However, it was not alone in expressing concern regarding the prospective relationship between regional integration efforts and TRIPS rules.

The EC's March 1990 proposal for a regional integration exception was drafted to provide extensive rights to discriminate.<sup>156</sup> Its proposal on MFN and exceptions stated:

Article 3 Most Favoured Nation Treatment/Non-Discrimination

In addition to the full application of Article I of the General Agreement, contracting parties shall ensure that the protection of intellectual property rights is not carried out in a manner which would constitute an arbitrary or unjustifiable discrimination between nationals of a contracting party and those of any other country or which would constitute a disguised restriction on international trade.

Article 4 Customs Unions and Free Trade Areas

Contracting parties which constitute a customs union or free trade area within the meaning of Article XXIV of the General Agreement may apply to one another measures relating to the protection of intellectual property rights without extending them to other contracting parties, in order to facilitate trade between their territories."

There was little apparent support for an open-ended Article XXIV-based provision such as the EC suggested. At the TNG meeting of 14–16 May 1990, most delegations that expressed a view did not support the EC approach.<sup>157</sup> The United States offered a proposal regarding MFN and the customs union issue that began to approximate the solution eventually framed in Article 4.<sup>158</sup> The U.S. proposal provided:

"Any advantage, favour, privilege, or immunity affecting the protection or enforcement of intellectual property rights which is given by a contracting party to the right-holders of another contracting party shall be accorded immediately and unconditionally to the right-holders of all other contracting parties except for any advantage, favor, privilege, or immunity which exceeds the requirements of this Agreement and which is provided for in an international agreement to which the contracting party belongs, so long as such agreement is open for accession by any contracting party of this Agreement."

<sup>156</sup> Draft Agreement on Trade-Related Aspects of Intellectual Property Rights (received from the European Communities 27 March 1990) MTN.GNG/NG11/W/68, 29 March 1990.

<sup>157</sup> Meeting of Negotiating Group of 14–16 May 1990, Note by the Secretariat, MTN.GNG/NG11/21, 22 June 1990, at paras. 17 & 38.

<sup>158</sup> Communication from the United States, Draft Agreement on the Trade-Related Aspects of Intellectual Property Rights, MTN.CNG/NG11/W/70, 11 May 1990, referenced *id.*, para. 11.

In this regard, reaction to the U.S. proposal is noteworthy:

"Article 3: Most Favoured Nation Treatment/Non-discrimination. Some participants stated they would have preferred a stricter MFN obligation along the lines of that found in Article I of the General Agreement, which was particularly important for small and medium size countries. It was also said that from this point of view it was an improvement over the formulation proposed by the European Communities. A number of participants sought clarification of the meaning and scope of the exception in the last few lines of the Article; would it cover Article XXIV agreements and existing bilateral agreements; would accession be on the same terms as the original parties and would it be automatic or subject to successful negotiations? Some delegations doubted that a right of accession would necessarily prevent or remedy discrimination resulting from certain bilateral agreements, since this might depend on how those agreements were drafted. The absence of an explicit reference to customs unions was also noted."<sup>159</sup>

**2.2.3.2 The Anell Draft.** The Anell composite text regarding MFN provided:

7. Most-Favoured-Nation Treatment/Non-Discrimination

7.1aA PARTIES shall ensure that the protection of intellectual property is not carried out in a manner [which would constitute an arbitrary or unjustifiable discrimination between nationals of a PARTY and those of any other country or which would constitute a disguised restriction on international trade] [that has the effect of impairing access to and equality of opportunity on their markets].

7.1b.1 With regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a PARTY to the nationals of any other [country] [PARTY] shall be accorded [immediately and unconditionally] to the nationals of all other PARTIES.

7.1b.2 Exempted from this obligation are any advantage, favour, privilege or immunity accorded by a PARTY:

– Deriving from international agreements on judicial assistance and law enforcement of a general nature and not particularly confined to the protection of intellectual property rights.

– Concerning procedures provided under international agreements relating to the acquisition and maintenance of protection for intellectual property in several countries, provided that accession to such agreements is open to all PARTIES.

– Granted in accordance with the provisions of the Berne Convention (1971) [and the Rome Convention] authorising that the treatment accorded be a function not of national treatment but of the treatment accorded in another country. (Note 4)

– Deriving from international agreements related to intellectual property law which entered into force prior to the entry into force of this agreement, provided that such agreements do not constitute an arbitrary and unjustifiable discrimination against nationals of other PARTIES and provided that any such exception in

<sup>159</sup> Meeting of the Negotiating Group of 1 November 1990, Note of the Secretariat, MTN.GNG/NG11/27,14 November 1990, at para. 17.

**2. History of the provision**

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respect of another PARTY does not remain in force for longer than [X] years after the coming into force of this agreement between the two PARTIES in question.

(Note 4) The relevant provisions would appear to be Articles 2(7), 6(1), 7(8), 14ter(1) and (2), 18 and 30(2)(b) of the Berne Convention and Articles 15 and 16(1)(a)(iv) and (b) of the Rome Convention.

– Exceeding the requirements of this agreement and which is provided in an international agreement to which the PARTY belongs, provided that [such agreement is open for accession by all PARTIES to this agreement] [any such PARTY shall be ready to extend such advantage, favour, privilege or immunity, on terms equivalent to those under the agreement, to any other PARTY so requesting and to enter into good faith negotiations to this end.]

7.2A With respect to the protection of intellectual property, PARTIES shall comply with the provisions of Article I of the General Agreement on Tariffs and Trade, subject to the exceptions provided in that Agreement. (Note 5)

(Note 5) This provision would not be necessary if, as proposed by some participants, the results of the negotiations were to be an integral part of the General Agreement on Tariffs and Trade.

**2.2.3.3 The Brussels Draft.** The Brussels Ministerial Text of December 1990 incorporated an Article 4 draft that is identical to the Dunkel Draft and final TRIPS Agreement text in so far as the basic MFN obligation and the exceptions in subparagraphs (a) and (b) are concerned. The Brussels Ministerial Text also provided for two other exemptions for MFN obligations:

“(c) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of this agreement, provided that such agreements are notified to the Committee established under Part VII below and do not constitute an arbitrary or unjustifiable discrimination against nationals of other PARTIES;

(d) exceeding the requirements of this Agreement and provided in an international agreement to which the PARTY belongs, provided that such agreement is open for accession by all PARTIES to this Agreement, or provided that such PARTY shall be ready to extend such advantage, favour, privilege or immunity, on terms equivalent to those under the agreement, to the nationals of any other PARTY so requesting and to enter into good faith negotiations to this end.”

It is important to note that Article 6 of the Brussels Ministerial Text on the subject of exhaustion of rights, discussed in Chapter 5, included a footnote 3 reference stating: “For purposes of exhaustion, the European Communities shall be considered a single Party.” To the extent that the EC was attempting to protect its intra-Community exhaustion rule in the Brussels Draft Article 4 (c) (see above), it was also seeking to protect it elsewhere. Footnote 3 to Article 6 was dropped by the Dunkel Draft stage.

Subparagraph (d) of the Brussels Ministerial Text was dropped in the Dunkel Draft, and subparagraph (c) was modified to form the Dunkel Draft and final TRIPS Agreement subparagraph (d). Note that the Brussels subparagraph (d) would have provided a wider exemption to MFN than subparagraph (d) of

Article 4, TRIPS. The latter makes an exemption dependent on the existence of international agreements specifically “related to the protection of intellectual property”, whereas the Brussels subparagraph (d) as quoted above referred to any sort of agreement containing “TRIPS-plus” provisions. Also, the Brussels Draft in the above subparagraph (d) did not require the respective international agreement to have entered into force prior to the TRIPS Agreement, as does Article 4 (d), TRIPS Agreement.

TRIPS subparagraph (c) (Article 4) relating to performers, producers of phonograms and broadcasters (ultimately “broadcast organizations”) was added at the Dunkel Draft stage.

The Brussels Ministerial Text of Article 4 reflected a substantial change from the Anell composite text, both in terms of the basic MFN obligation and the exceptions. Regarding the basic MFN obligation, the use of unjustifiable discrimination as the benchmark (as initially proposed by the EC), and direct reference to impairing market access, were dropped. The idea that the exception for pre-existing agreements would be of a limited duration (see above, subparagraph 7.1b.2) was eliminated. Chairman Anell’s transmittal Commentary to the Ministers said:

“Turning to the major outstanding issues on points of substance, there is, in Part I on General Provisions and Basic Principles, a need for further work on Article 4 on Most-Favoured-Nation Treatment, in particular sub-paragraph (d).”<sup>160</sup>

**2.2.3.4 The Dunkel Draft.** There are no significant differences between the Dunkel Draft text of Article 4 and the final text of Article 4 of TRIPS.

Subparagraph (d) of the Brussels Draft as quoted above was eliminated in the Dunkel Draft and final TRIPS Agreement text.

Note that footnote 2 of the Dunkel Draft (which then became footnote 3 to Article 3 under the TRIPS final text) addressing “use” of IPRs also applies to Article 4, and to that extent the market access issue is covered (see the discussion above with respect to the Dunkel Draft provision on national treatment).

#### **2.2.4 Exception for WIPO Acquisition and Maintenance Agreements**

In the course of the TRIPS negotiations, the WTO Secretariat and WIPO prepared a number of reports concerning existing international agreements relating to intellectual property,<sup>161</sup> including those relating to the acquisition and maintenance

<sup>160</sup> See Brussels Ministerial Text as quoted above.

<sup>161</sup> See, e.g., International Conventions Regarding Intellectual Property and Their Membership, Note by the Secretariat, MTN.GNG/NG11/W/13, 2 Sept. 1987, and Provisions of Existing International Conventions Providing Protection for Intellectual Property, Communication from the WIPO Secretariat, MTN.GNG/NG11/W/21, 12 February 1988. The latter report notes that because it describes substantive provisions, it does not include description of the agreements relating to acquisition of rights, “the Madrid Agreement Concerning the International Registration of Marks, the Hague Agreement Concerning the International Deposit of Industrial Designs, the Patent Co-operation Treaty, the Trademark Registration Treaty and the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure. For the same reason, the present document does not cover those provisions of the Lisbon Agreement for the

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of IPRs.<sup>162</sup> Negotiators recognized that Members that are party to multilateral agreements for the acquisition and maintenance of IPRs would enjoy certain rights or privileges as compared with those Members that were not party to those agreements.<sup>163</sup> Although the negotiating record of the TRIPS Agreement does not reflect extensive discussion on this matter, it is apparent that preserving the differential rights of Members under agreements such as the Patent Cooperation Treaty would require an exception from the national treatment and MFN principles of TRIPS. Without such an exception, Members that were not party to the agreements on acquisition and maintenance of rights would be assumed to enjoy the benefits of those agreements without joining them (and assuming obligations).

One important question was whether the exclusion from national and MFN treatment would apply to all international agreements governing the acquisition and maintenance of rights, or only to specified agreements. The composite text prepared by TNG Chairman Anell included an express exception for acquisition-related agreements as part of its MFN proposal. This would have provided an MFN exemption:

“Concerning procedures provided under international agreements relating to the acquisition and maintenance of protection for intellectual property in several countries, provided that accession to such agreements is open to all PARTIES.”  
(*see above*, at 7.1b.2)

This broadly formulated exemption would presumably have encompassed the European Patent Convention, to give one example.

The Brussels Ministerial Text and the Dunkel Draft text included Article 5, which was adopted without material change as Article 5, TRIPS Agreement. Article 5 provides an exemption from the requirements of Articles 3 (national treatment) and 4 (MFN), but is limited to acquisition and maintenance agreements concluded under WIPO auspices.

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#### 3.1 National treatment

##### 3.1.1 General observations

The basic obligation of each Member under Article 3 is to treat nationals of other Members at least as favourably as it treats its own nationals in respect to the protection of intellectual property. Under traditional GATT 1947 jurisprudence, the national treatment principle was understood to permit express or formal legal distinctions between the treatment of imported and locally produced goods, provided

Protection of Appellations of Origin and their International Registration which deal with the international registration of appellations of origin”, at para. 4.

<sup>162</sup> See particularly, Existence, Scope and Form of Generally Internationally Accepted and Applied Standards/Norms for the Protection of Intellectual Property, Note Prepared by the International Bureau of WIPO, MTN.GNG/NG11/W/24/Rev.1, 15 Sept. 1988.

<sup>163</sup> See, e.g., Compilation of Written Submissions and Oral Statements, Prepared by the Secretariat, MTN.GNG/NG11/W/12/Rev.1, 5 February 1988, at 66.

that there was no discriminatory effect in their treatment. For example, sanitary inspections of imported cattle might be conducted in a different way than sanitary inspections of locally raised cattle. Imported cattle might be inspected on entering the country, while local cattle might be inspected through periodic visits to ranches. In each case, the objective of assuring food safety would be the same. Formally different treatment would be justified by the circumstances. There is nothing in the negotiating history or text of Article 3 to suggest that Members intended to modify this approach. Thus, TRIPS permits express or formal distinctions among local and foreign nationals, provided the effects are non-discriminatory.

Generally speaking, the Paris and Berne Convention national treatment provisions also appear to permit formal differences in rules, provided that the level of protection provided to local and foreign nationals is equivalent (See Articles 2(1) and 3, Paris Convention, and Article 5(1) and (3), Berne Convention).

### **3.1.2 No less favourable and equivalent treatment**

The Paris and Berne Conventions each require that state parties provide equivalent treatment to local and foreign nationals. The Paris Convention formula (in Article 2(1)) is specific on the subject of infringement, stating that foreign nationals "shall have the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with."<sup>164</sup>

A Member might act inconsistently with the Paris or Berne Convention requirement of equivalence while providing more favourable treatment in accord with Article 3. Yet, as noted in Chapter 3, a WTO Member may not derogate from its obligations under the Paris and Berne Conventions, including their national treatment obligations (Article 2.2, TRIPS). Thus, while Article 3 may grant the flexibility to treat foreign nationals more favourably than local nationals, the incorporated provisions of the Paris and Berne Conventions might be interpreted to take this flexibility away. The apparent conflict might be resolved from the standpoint of TRIPS by interpreting the Paris and Berne requirements of equivalence not to establish an "obligation" in regard to foreign nationals, since application of Paris and Berne rules of equivalence may in fact diminish the potential rights of foreign nationals.

The possibility that a WTO Member would treat foreign nationals more favourably than its own nationals (and, problematically, selectively discriminating among nationals of different countries) led to incorporation of the MFN principle in TRIPS. Given the lack of apparent incentive for doing so, it may be the exceptional case in which a Member will choose to grant preferential treatment to foreigners (this assumption having underlain the WIPO Convention system). Thus, the potential inconsistency between TRIPS and the Paris and Berne Convention national treatment provisions may become an issue only in an exceptional context.

<sup>164</sup> Yet, under Article 2(3), Paris Convention, "provisions . . . relating to judicial and administrative procedure and to jurisdiction . . . which may be required by the laws on industrial property are expressly reserved." The distinction between a "remedy" that must be the "same", and a "procedure" that is "reserved" or exempt may be difficult to draw, and in this sense the Paris Convention is not a model of clarity.

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#### 3.1.3 *De jure* discrimination

National treatment controversies may arise from formal differences in legal rules that Members claim to provide “no less favourable” (or equivalent) treatment to foreign nationals (*de jure* differentiation).

GATT 1947 and WTO jurisprudence is substantially devoted to interpretation of the national treatment obligation in respect to trade in goods. As a general proposition, formally different rules are said to contravene the national treatment obligation when they unfavourably affect “conditions of competition” between imported and locally produced goods, making it *potentially* more difficult for imported goods to compete. Whether and how conditions of competition are affected significantly depends on the factual setting, and this makes generalization difficult. What is clear, however, in the trade in goods context is that adverse effects-in-fact on imports need *not* be demonstrated. It need only be demonstrated that the *economic environment* for imports has been unfavourably altered by the rules that are challenged.<sup>165</sup>

If a WTO Member drafts its IPR rules in a way that differentiates between local and foreign nationals, there is of course a possibility that such rules may discriminate against foreign nationals. The issue under Article 3 is whether the rules are in fact discriminatory in the sense of making it more difficult for foreign nationals to obtain or enforce IPR protection.

Article 3.2 provides some guidance regarding the adoption of formally different rules. It provides that exceptions from national treatment allowed under the WIPO Conventions specified in Article 3.1 may be used regarding:

judicial and administrative procedures, including the designation of an address for service or the appointment of an agent within the jurisdiction of a Member, only where such exceptions are necessary to secure compliance with laws and regulations which are not inconsistent with the provisions of this Agreement and where such practices are not applied in a manner which would constitute a disguised restriction on trade. [emphasis added]

Article 2(3), Paris Convention reserves (or exempts) from its national treatment obligation laws on judicial and administrative procedure. Article 3.2, TRIPS Agreement, significantly cuts down on the scope of that Paris Convention exception from the national treatment obligation. Exceptions must be “necessary”, and must not be “applied in a manner which would constitute a disguised restriction on trade”.

If Article 3.2 establishes rigorous standards in respect to differential treatment of foreign nationals as to judicial and administrative procedures, this suggests that formally (or expressly) different substantive rules may also be examined rigorously, both in regard to form and practice. The decision of the WTO Appellate Body in the U.S. – *Havana Club* case, discussed below, appears to confirm a rigorous approach to application of the TRIPS Agreement national treatment standard.

Allocation of the burden of proof may play a substantial role in dispute settlement concerning formally different rules. Does the fact that a Member has elected to draft different IPR rules for local and foreign nationals place the burden of

<sup>165</sup> See also Chapter 32, Section 3.

proof on that Member to justify the formal difference in treatment? Article 3 does not expressly address this issue. On the one hand, Members have the discretion to draft laws in the manner they determine to be appropriate (see Chapter 2 on Article 1.1).<sup>166</sup> It could be argued that taking advantage of this right should not have any negative effects such as the reversal of the burden of proof. On the other hand, formal differences in the treatment of foreign nationals would certainly aid in establishing a *prima facie* case of inconsistency with the national treatment standard, and increase the likelihood that the burden would be shifted to the Member adopting the differential treatment to justify the differences.<sup>167</sup>

### 3.1.4 *De facto* discrimination

Discriminatory treatment in the national treatment context may occur not only on the basis of expressly or formally different legal rules, but also when rules that are the same on their face in fact operate in a discriminatory manner (*de facto* discrimination). This principle was long recognized as a matter of GATT 1947 jurisprudence, and reflects also long-standing jurisprudence of the European Court of Justice.

The paradigm case of *de facto* discrimination in GATT 1947 law happened to involve the protection of U.S. intellectual property rights holders under Section 337 of the U.S. Tariff Act of 1930.<sup>168</sup> Section 337 made it easier for a patent holder in the United States to block imports alleged to infringe a patent than to proceed against comparable infringing goods already within the United States.<sup>169</sup> The former could be accomplished through an expeditious administrative proceeding that eliminated rights to counterclaim, while the latter required a more complex and time-consuming court trial. Section 337 treated all imported products on an equivalent basis in a formal sense. On its face, the legislation was non-discriminatory as between foreign and U.S. nationals. However, the panel observed that the preponderance of imports into the United States was produced by foreign nationals, so the legislation would in fact affect foreign nationals routinely, while affecting U.S. nationals perhaps rarely. The panel concluded that Section 337 violated U.S. national treatment obligations under Article III, GATT 1947, in an operational or *de facto* sense.

The negotiating record of the TRIPS Agreement indicates that Members were well aware of the doctrine of *de facto* discrimination in the national treatment context. There is no indication that Members intended to alter this doctrine in adopting Article 3.

<sup>166</sup> See discussion of the importance of Member sovereignty in implementation of WTO obligations in *EC Measures Concerning Meat and Meat Products (Hormones)*, Report of the Appellate Body, WT/DS26/AB/R; WT/DS48/AB/R of 16 January 1998 [hereinafter “EC – Beef Hormones”].

<sup>167</sup> See discussion of U.S. – Havana Club case, below, in which the WTO AB indicates that the EC, having shown that the U.S. legislation distinguished on its face between U.S. and foreign nationals, had established a *prima facie* case of discrimination, at para. 281. This put the U.S. in the position of rebutting the *prima facie* case, and in essence constituted a shift in the burden of proof.

<sup>168</sup> See *United States – Section 337 of the Tariff Act of 1930*, Report of the Panel, adopted 7 November 1989, BISD 36S/345 [hereinafter “U.S. – Section 337”].

<sup>169</sup> See discussion below (Section 4) in respect to *U.S. – Havana Club* decision.

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#### 3.1.5 Exceptions from national treatment under the WIPO Conventions

The exceptions referred to by Article 3 under the Paris, Berne and IPIC Conventions were compiled by WIPO during the TRIPS negotiations and cross-referenced in the Anell draft of a national treatment provision. For ease of reference, that listing by WIPO is appended to this Chapter as Annex 1. The Rome Convention is not exclusively administered by WIPO, and was not addressed in its report. However, the Anell text noted that:

“For the Rome Convention, the relevant provisions would appear to be Articles 15, 16(1)(a)(iii) and (iv) and (b), and 17.”<sup>170</sup>

Another limitation of the national treatment obligation exists with respect to the rights of performers, producers of phonograms and broadcasting organizations: the second sentence of Article 3.1 states that:

“In respect of performers, producers of phonograms and broadcasting organizations, this obligation [i.e. national treatment] only applies in respect of the rights provided under this Agreement.”

This means that any additional rights provided under other international agreements<sup>171</sup> do not have to be extended to nationals of WTO Members that are not parties to this other agreement.<sup>172</sup>

### 3.2 MFN treatment

Application of an MFN standard in the context of IPR protection is an innovation in the multilateral context, and precedent is therefore limited. Article 4

<sup>170</sup> Article 15, Rome Convention, allows for certain fair use exceptions to protection; Article 16(1)(a)(iii) and (iv), allows for limitations on the obligation to pay equitable remuneration for secondary uses of phonograms based, *inter alia*, on reciprocity. Article 16(1)(b) allows contracting states to exempt protection of television broadcasts in public places, permitting affected states to withdraw such protection. Article 17 allows contracting states which granted protection of producers of phonograms solely on the basis of fixation on October 26, 1961, to maintain that criterion for certain purposes. As noted below in regard to notification practice, some WTO Members have notified the TRIPS Council of exceptions from application of Article 5, para. 1(b) or (c), Rome Convention, regarding the criterion of fixation or publication in another contracting state for granting national treatment to producers of phonograms. “Fixation” is not defined in the Rome Convention, but it is defined in the later WIPO Performances and Phonograms Treaty (WPPT) as “the embodiment of sounds, or of the representations thereof, from which they can be perceived, reproduced or communicated through a device.” (WPPT, Article 2(c)). In a more colloquial sense, “fixation” refers to recording music (or other expression) on to a CD or other tangible medium.

<sup>171</sup> An international agreement providing additional rights in this respect is the WIPO Performances and Phonograms Treaty (WPPT), adopted in Geneva on 20 December 1996. Available at <http://www.wipo.int/clea/docs/en/wo/wo034en.htm>. Due to its **post**-TRIPS adoption, however, obligations particular to this treaty would in any case not have to be extended to WTO Members that are not parties to the WPPT. A **pre**-TRIPS international agreement in this respect is the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations. This Convention is equally not mandatory for those WTO Members that are not parties to it (see Chapter 3).

<sup>172</sup> The purpose of this limitation is to avoid “free riding” of those latter Members. For instance, those Members not parties to the WPPT or the Rome Convention cannot claim that their nationals be accorded the rights that are not guaranteed in their own territory. The national treatment obligation is limited to the minimum rights provided under Article 14, TRIPS Agreement (for details on Article 14, TRIPS Agreement, see Chapter 13).

provides for the immediate and unconditional extension to nationals of all Members “any advantage, favour, privilege or immunity” granted with respect to the protection of intellectual property to nationals of any country (including a non-Member of the WTO). This article is modelled on Article I of the GATT 1947 and 1994.

What constitutes an advantage or concession in the protection of intellectual property is not necessarily clear. Granting to nationals of another Member more extensive protection of rights would likely be considered an advantage that must be extended to nationals of all Members. But if a country decides to provide more extensive exceptions, for example, in the area of fair use of copyrighted materials, and decides to extend those exceptions to foreign nationals of only certain WTO Members, might other “unaffected” Members consider this an “advantage” regarding protection that should automatically apply to them? Some “unaffected” foreign nationals might wish to take advantage of the exceptions, and find they are unable to do so. This could well have negative commercial implications for those foreign nationals.<sup>173</sup> The question what constitutes an advantage as a matter of intellectual property protection and the extension of MFN treatment becomes rather important when the Article 4(d) exemption and its application to regional markets is considered.

Article 4 refers to advantages in respect to “intellectual property”. Recall here the discussion in Chapter 3 regarding the definition and scope of the term “intellectual property”, and that the MFN obligation applies only to such subject matter.

The exceptions to MFN treatment in Article 4 are complex. Article 4(d) in particular leaves considerable room for interpretation. Pursuant to Article 4, MFN treatment need not be provided regarding advantages, favours, privileges and immunities:

- “(a) deriving from international agreements on judicial assistance or law enforcement of a general nature and not particularly confined to the protection of intellectual property;
- “(b) granted in accordance with the provisions of the Berne Convention (1971) or the Rome Convention authorizing that the treatment accorded be a function not of national treatment but of the treatment accorded in another country;
- “(c) in respect of the rights of performers, producers of phonograms and broadcasting organizations not provided under this Agreement;
- “(d) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members.”

Regarding Article 4(a), there are numerous international agreements – bilateral, regional and multilateral – that deal with judicial assistance and law enforcement.

<sup>173</sup> Consider, for example, television broadcasters, and the situation in which some foreign broadcasters are permitted to rebroadcast newsworthy events, while others are not. For those that are not, their audience might decline, depriving them of an economic benefit. Thus, an “exception” may confer a benefit.

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This would include agreements regarding obtaining evidence, extradition, investigation of anticompetitive activity, and enforcement of judgments. Most of these agreements may have some application in the field of intellectual property. Many of the commitments that countries make to each other in these agreements are based explicitly or implicitly on reciprocity. That is, a country agrees to furnish aid in obtaining evidence to another country in exchange for a commitment by that other country to do likewise. It was beyond the scope of the TRIPS negotiations to attempt to rationalize all of these arrangements so that each Member treated all other Members on the same basis under these various agreements, and a general exemption is provided.

As noted in previous sections regarding national treatment, there are certain provisions of the Berne and Rome Conventions that allow for differential treatment of foreign nationals based on reciprocity. For example, the Berne Convention allows a party to limit the term of protection for a work of foreign origin to the term of protection granted in the country of origin. Article 4(b) allows for these differences in the treatment of foreign nationals in the MFN context.

The rights of performers, producers of phonograms and broadcast organizations are governed by a patchwork of multilateral, regional and bilateral agreements. The WIPO Performances and Phonograms Treaty (WPPT) concluded in 1996 attempts to rationalize this arrangement, but it is not part of the TRIPS framework. TRIPS establishes minimum rights in favour of performers, producers of phonograms and broadcast organizations (see Article 14), but a deliberate choice was made not to require each Member to extend its complete basket of protective rights to all other Members. Article 4(c) acknowledges this decision, thus constituting a parallel to the second sentence of Article 3 on national treatment for performers, producers of phonograms and broadcast organizations (see above, Section 3.1).

Article 4(d) addresses one of the most difficult sets of issues reflected in TRIPS, and does so in a way that does not provide clarity or certainty. Two elements, however, reduce the uncertainty: first, the exception is limited to agreements that entered into force before the TRIPS Agreement, and second, Members are required to notify the Council for TRIPS of such agreements.

The express text of Article 4(d) refers to advantages "deriving from international agreements related to the protection of intellectual property". In light of the negotiating history of this provision, it is noteworthy that no express reference is made to customs unions or free trade areas (under Article XXIV, GATT 1994) or regional services arrangements (under Article V, GATS). Presumably this was done so that preferences under "pure" intellectual property arrangements such as the European Patent Convention, the once-contemplated Community Patent Convention, ARIPO, OAPI, and similar arrangements might fall within its scope. At the same time, it is doubtful that many persons familiar with the charter documents of the European Community, Andean Pact, Mercosur/<sup>174</sup> or NAFTA would ordinarily understand these agreements as "related to the protection of intellectual

<sup>174</sup> The acronym for this organization in Spanish is "Mercosur" and in Portuguese is "Mercosul". Most commonly it is referred to in English as "Mercosur". In this text, the form "Mercosur/l" is used to reflect both languages.

property". While indeed each of these regional arrangements has intellectual property protection within its subject matter scope, it is only a part of each arrangement; and it is as if to say that the Constitution of Brazil or the United States is a charter document related to the protection of intellectual property because it refers to that subject matter in a few places.

The use of the phrase "deriving from" is also significant, because it suggests that the advantages, favours, etc. that are exempted from MFN treatment are not static, but rather may develop over time based on the underlying pre-existing agreement. This is particularly important because it would seem to leave a very large space for regional arrangements such as the EC to increase the scope of MFN derogations based on the earlier-adopted EC Treaty.

While the negotiating history of Article 4(d) does indicate an awareness of the EC's concerns to establish a space in which its intellectual property regime would enjoy certain privileges, there was also concern expressed by a number of negotiating Members that the MFN exemption be narrowly constructed. In this context, there is reason to ask whether Article 4(d) was truly intended as an open-ended exclusion from the MFN obligation that would encompass any future actions contemplated by the EC or similar regional arrangements.

Having made this point, the fact that Article 3 mandates national treatment significantly reduces the possibilities for abuse of the MFN exemption. That is, preferential treatment among members of a regional arrangement should not adversely affect third country nationals to the extent they are provided national treatment within each Member of the regional group, except in the unlikely event that one of those Members grants "better than national treatment" to other Members of the group.

What then, does Article 4(d) accomplish? The EC had an interest in protection of its "intra-Community exhaustion" doctrine. When goods are placed on the market with the consent of the IP right holder in one member state they enjoy free circulation in other member states of the Community.<sup>175</sup> In the EC's view, this treatment of goods placed on the market within the Community does not necessarily extend to goods placed on the market outside the Community. However, since each EC member state is depriving its local IP right holder of protection with respect to goods placed on the market within the Community, it is difficult to see how this is an "advantage, favour, privilege or immunity" granted to Community nationals that the EC should be exempted from extending to non-EC nationals, though this appears to be the position taken by the EC.<sup>176</sup>

With this background, let us consider some of the notifications so far made under Article 4(d). The EC notification states:

"We hereby notify on behalf of the European Community and its Member States to the Council for Trade-Related Aspects of Intellectual Property Rights, pursuant to Article 4, paragraph (d) of the Agreement on Trade-Related Aspects of

<sup>175</sup> The same (or an economically linked) IP right holder may not prevent importation into a second member state.

<sup>176</sup> In this sense, IP right holders outside EC territory are treated "better than" IP right holders within EC territory because the external IP right holders are not subject to exhaustion of their rights based on placing their goods on an external market.

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Intellectual Property Rights, both the Treaty establishing the European Community and the Agreement establishing the European Economic Area. Notification of these agreements covers not only those provisions directly contained therein, as interpreted by the relevant jurisprudence, but also existing or future acts adopted by the Community as such and/or by the Member States which conform with these agreements following the process of regional integration.”<sup>177</sup>

The Andean Pact notification states:

“In accordance with Article 4(d) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Governments of the Republics of Bolivia, Colombia, Ecuador, Peru and Venezuela, Members of the Andean Community, hereby notify the Council for TRIPS of the Cartagena Agreement.

This notification of the Cartagena Agreement relates not only to the provisions directly included therein, as interpreted and applied in the relevant law, but also to the regulations which have been or may in the future be adopted by the Andean Community or its Member Countries, in accordance with the Agreement in the course of the process of regional integration.”<sup>178</sup>

The Mercosul/r notification states:

“The Common Market Group requested the Pro Tempore Chairman to notify to the Council for the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Treaty of Asunción and the Ouro Preto Protocol, with reference not only to the provisions contained therein but also all agreements, protocols, decisions, resolutions and guidelines adopted or to be adopted in the future by MERCOSUR or its States Parties in the course of the regional integration process that are of relevance to TRIPS, pursuant to the Agreement.

By virtue of the above and in keeping with the terms of Article 4(d) of the TRIPS Agreement, I hereby notify the texts of the Treaty of Asunción of 26 March 1991 establishing MERCOSUR and the Ouro Preto Protocol signed on 17 December 1994.”<sup>179</sup>

The U.S. NAFTA notification states:

“Pursuant to Article 4(d) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the United States hereby notifies Article 1709, paragraph (7), of the North American Free Trade Agreement (NAFTA) as being exempt from the most-favoured-nation treatment obligations of the TRIPS Agreement.”<sup>180</sup>

<sup>177</sup> Notification under Article 4(d) of the Agreement, European Communities and their Member States, IP/N/4/EEC/1, 29 January 1996.

<sup>178</sup> Notification under Article 4(d) of the Agreement, Bolivia, Colombia, Ecuador, Peru, Venezuela, IP/N/4/BOL/1, IP/N/4/COL/1, IP/N/4/ECU/1, IP/N/4/PER/1, IP/N/4/VEN/2, 19 August 1997.

<sup>179</sup> Notification under Article 4(d) of the Agreement, Argentina, Brazil, Paraguay, Uruguay, IP/N/4/ARG/1, IP/N/4/BRA/1, IP/N/4/PRY/1, IP/N/4/URY/1, 14 July 1998.

<sup>180</sup> Notification under Article 4(d) of the Agreement, United States, IP/N/4/USA/1, 29 February 1996. Article 1709(7), NAFTA, provides: “Subject to paragraphs 2 and 3 [reproducing the TRIPS Article 27(a)(2) and (3) rights of exclusion from patentability], patents shall be available and patent rights enjoyable without discrimination as to the field of technology, the territory of the Party where the invention was made and whether the products are imported or locally produced.”

The notifications, and particularly for the EC, Andean Pact and Mercosul/r, are drafted in a way that suggests a wide scope of exemption authority. The EC, for example, includes "relevant jurisprudence" and "future acts" ... "following the process of regional integration". Were the same regional groups and their member countries not bound by national treatment obligations, the exemptions would appear to permit almost any grant of preferences to countries within the group that would not be extended to foreign nationals. Yet because the EC as a regional arrangement (and the member states of the EC) and each of the other arrangements must provide national treatment to nationals of third countries, the scope for exemption by virtue of derogation from MFN treatment may in fact be rather limited.

### 3.3 WIPO Acquisition and Maintenance Treaties

Article 5 provides an exemption from TRIPS national and MFN treatment obligations for IPRs acquisition and maintenance agreements established under WIPO auspices. The referenced agreements, for example, may require authorities in each state party to accept certain forms of registration, certification and other data from applicants in other state parties. Such requirements generally are not extended to applications that do not originate from non-party states (though rights may accrue to persons who have a sufficient connection to a party state, but are not nationals of that state). In the absence of an exemption from national treatment and MFN, rights under the WIPO acquisition and maintenance treaties would automatically be extended to all WTO Members (and their nationals) without corresponding obligations.

The WIPO acquisition and maintenance agreements would be understood to encompass the Madrid Agreement (and Protocol) Concerning the International Registration of Marks, the Hague Agreement Concerning the International Deposit of Industrial Designs, the Patent Cooperation Treaty, the Patent Law Treaty, the Trademark Law Treaty and the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and certain provisions of the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration. The list of such agreements is not fixed, and new multilateral acquisition and maintenance agreements adopted under WIPO auspices would also qualify for national and MFN treatment exemption under Article 5.

Since the Paris and Berne Conventions and the IPIC Treaty are multilateral agreements concluded under WIPO auspices, and contain provisions addressing acquisition and maintenance of patents, trademarks, industrial designs, copyright and integrated circuit lay-out designs, an argument might be made that these agreements, at least in so far as provisions relevant to acquisition and maintenance are concerned, also fall within the scope of the Article 5 exemption. However, since these agreements are otherwise specifically incorporated by reference in TRIPS,<sup>181</sup> such an interpretation would appear inconsistent with the apparent intention of the TRIPS Agreement drafters.

<sup>181</sup> See TRIPS Article 2.1 for the Paris Convention; Article 9.1 for the Berne Convention; and Article 35 for the IPIC Treaty. For more details, see Chapter 3.

## 4. WTO jurisprudence

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**4. WTO jurisprudence****4.1 U.S. – Havana Club**

In the *U.S. – Havana Club* case,<sup>182</sup> the WTO Appellate Body (AB) applied the national treatment rules of TRIPS and the Paris Convention. The AB observed that the national treatment obligation of the Paris Convention extended back to the 1880s, and that the parties to the case before it would be subject to the Paris Convention national treatment rule even were they not parties to TRIPS. While the AB referenced both the TRIPS and Paris Convention rules, it did not refer to the different legal formulas used, instead highlighting that the decision to include a national treatment provision in the TRIPS Agreement indicated the “fundamental significance of the obligation of national treatment to [the framers’] purposes in the *TRIPS Agreement*”<sup>183</sup> The AB also addressed the relevance of jurisprudence regarding the GATT national treatment provision, saying:

“As we see it, the national treatment obligation is a fundamental principle underlying the *TRIPS Agreement*, just as it has been in what is now the GATT 1994. The Panel was correct in concluding that, as the language of Article 3.1 of the *TRIPS Agreement*, in particular, is similar to that of Article III:4 of the GATT 1994, the jurisprudence on Article III:4 of the GATT 1994 may be useful in interpreting the national treatment obligation in the *TRIPS Agreement*.” (*Id.*, at para. 242)

The panel in the *U.S. – Havana Club* case decided that U.S. legislation regulating trademarks that had been confiscated by the Cuban government was not inconsistent with Article 3. While there were in fact formal legal differences between the way U.S. nationals and foreign nationals were addressed by the relevant legislation, the panel found that as a practical matter the possibility was extremely remote that a U.S. national would receive preferential treatment. Certain favourable treatment of U.S. nationals would require affirmative administrative action by U.S. regulatory authorities (contrary to the longstanding practice of the authorities to refuse such action), and the U.S. indicated that its regulatory authorities would not in fact act in a way that such preferential treatment would be provided.

The AB rejected the legal analysis of the panel, referring to the *U.S. – Section 337* decision regarding Article III:4, GATT 1947.<sup>184</sup> In that earlier decision, the panel said that even though the possibility for a certain type of discrimination to take place under a legislative arrangement was small, the fact that the possibility was present constituted sufficient discrimination to present a national treatment inconsistency. In *U.S. – Havana Club*, the AB said:

“The United States may be right that the likelihood of having to overcome the hurdles of both Section 515.201 of Title 31 CFR and Section 211(a)(2) may, echoing the panel in *US – Section 337*, be *small*. But, again echoing that panel, even the *possibility* that non-United States successors-in-interest face two hurdles is

<sup>182</sup> *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/AB/R, Report of the Appellate Body, 2 January 2002 [hereinafter “U.S. – Havana Club”].

<sup>183</sup> *Id.*, at para. 240.

<sup>184</sup> See above, Section 3 on *de facto* discrimination.

*inherently less favourable* than the undisputed fact that United States successors-in-interest face only one.” (AB Report, *Havana Club*, at para. 265)

The AB’s approach may strike those familiar with the *U.S. – Section 337* decision as strained. In that case, the United States had adopted a comprehensive administrative mechanism for patent (and other IP right) holders to seek remedies against infringing imports. That Section 337 mechanism contained a number of features making it easier to obtain remedies against imports than to obtain remedies (in domestic infringement proceedings) against goods circulating in the United States. One element of the Section 337 arrangement (though not the most important one from a discrimination standpoint) was that an importer might in theory be subject to simultaneous proceedings at the U.S. International Trade Commission (ITC) and in federal court regarding the same allegedly infringing conduct. (From a practical standpoint, the major discriminatory feature of the ITC procedure was its failure to allow for alleged infringers to assert patent counterclaims. Also, the ITC procedure was substantially more time-compressed than court proceedings.) From the standpoint of importers, the prospects for discriminatory application of U.S. patent law were real and ever-present. It was not surprising in this context that the Section 337 panel rejected U.S. suggestions that the discriminatory features of the legislation were of no practical consequence.

The situation in *U.S. – Havana Club* was significantly different. In *Havana Club* the AB was faced with a consistent U.S. practice of refusing to grant licenses of the type with which the EC expressed concern and a stated commitment by the U.S. not to grant such licenses in the future. Moreover, factual scenarios posited by the EC in which discrimination issues might arise were extremely unlikely. In this sense, the AB effectively decided that any formal differences in legal procedures would not withstand national treatment scrutiny, even if the practical consequences were extremely remote, and if the government adopting the procedures accepted not to use them.

The AB also applied Article 4 in *U.S. – Havana Club*. It said:

“Like the national treatment obligation, the obligation to provide most-favoured-nation treatment has long been one of the cornerstones of the world trading system. For more than fifty years, the obligation to provide most-favoured-nation treatment in Article I of the GATT 1994 has been both central and essential to assuring the success of a global rules-based system for trade in goods. Unlike the national treatment principle, there is no provision in the Paris Convention (1967) that establishes a most-favoured-nation obligation with respect to rights in trademarks or other industrial property. However, the framers of the *TRIPS Agreement* decided to extend the most-favoured-nation obligation to the protection of intellectual property rights covered by that Agreement. As a cornerstone of the world trading system, the most-favoured-nation obligation must be accorded the same significance with respect to intellectual property rights under the *TRIPS Agreement* that it has long been accorded with respect to trade in goods under the GATT. It is, in a word, fundamental.” (*Id.*, at para. 297)

The U.S. legislation at issue provided formally different treatment on its face as respects nationals of Cuba and other foreign countries (“non-Cuban foreign nationals”). The AB noted again that this established a *prima facie* inconsistency. The

U.S. had attempted to rebut this inconsistency by demonstrating that as a practical matter there would be no discrimination among nationals of different foreign countries. The panel had accepted the U.S. position. The AB rejected the panel's holding in reliance on a remote set of hypothetical circumstances suggested by the EC regarding differential treatment of non-U.S. national trademark holders. The AB established an extremely rigorous standard for application of the MFN principle which few formal differences in treatment of nationals from different foreign Members are likely to survive.

#### 4.2 EC – Protection of Trademarks and GIs

Following separate requests by Australia<sup>185</sup> and the USA,<sup>186</sup> the WTO Dispute Settlement Body (DSB) at its meeting on 2 October 2003 established a single panel to examine complaints with respect to EC Council Regulation (EEC) No. 2081/92 of 14 July 1992 (published in the EU's Official Journal L 208 of 24 July 1992, pages 1-8) on the protection of geographical indications and designations of origin for agricultural products and foodstuffs.<sup>187</sup> The complaints are based, *inter alia*, on alleged violations of the TRIPS national treatment and most-favoured-nation treatment obligations (Articles 3.1 and 4) through the above EC Regulation.<sup>188</sup> The contested provision in this respect is Article 12 of the Regulation on the protection of geographical indications for foreign products.<sup>189</sup> Article 12 provides:

“Article 12

1. Without prejudice to international agreements, this Regulation may apply to an agricultural product or foodstuff from a third country provided that:
  - the third country is able to give guarantees identical or equivalent to those referred to in Article 4,
  - the third country concerned has inspection arrangements equivalent to those laid down in Article 10,
  - the third country concerned is prepared to provide protection equivalent to that available in the Community to corresponding agricultural products for foodstuffs coming from the Community.
2. If a protected name of a third country is identical to a Community protected name, registration shall be granted with due regard for local and traditional usage and the practical risks of confusion.

Use of such names shall be authorized only if the country of origin of the product is clearly and visibly indicated on the label.”

<sup>185</sup> WT/DS290/18 of 19 August 2003.

<sup>186</sup> WT/DS174/20 of 19 August 2003.

<sup>187</sup> *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs* [hereinafter “EC – Protection of Trademarks and GIs”], WT/DS174/21 and WT/DS290/19 of 24 February 2004, Constitution of the Panel Established at the Requests of the United States and Australia.

<sup>188</sup> See the above requests by Australia and the USA for the establishment of a panel. Note that the same complaint is also based on other TRIPS provisions, in particular relating to the protection of trademarks and geographical indications. See Chapters 14 and 15.

<sup>189</sup> For an analysis of this EC legislation on GIs see also Chapter 15, Section 2.1.

## 5. Relationship with other international instruments

### 5.1 WTO Agreements

As the AB observed in the *U.S. – Havana Club* decision, interpretation of the national treatment and MFN principles of TRIPS will be informed by interpretation of comparable provisions in the other WTO agreements. The extent to which the comparable provisions inform TRIPS will depend on the specific context of their application in these other settings. The GATT 1994 and GATS each contain express national treatment and MFN obligations, and the TBT and TRIMS Agreements incorporate national treatment provisions. Caution will necessarily be required in drawing analogies among the various agreements as the treatment, for example, of imported goods might imply different results than the treatment of foreign rights holders. In any case, it is difficult to suggest general principles as to the relationship among the various agreements and their application of non-discrimination rules beyond that suggested by the AB, that is, that they may inform each other.

One question that is squarely presented by the notifications of the EC, Andean Pact and Mercosur/l under Article 4(d)<sup>190</sup> is the extent to which the formation of a customs union or free trade area (under Article XXIV, GATT 1994) or regional services arrangement (under Article V, GATS) provides leeway for discrimination in favour of persons or enterprises within those arrangements. There is a very long history in GATT jurisprudence and practice, and in the academic literature, on the place of regional arrangements within the multilateral trading system, and this history suggests that such regional arrangements tend to stake claims to broad exclusions from multilateral rules. These claims have encompassed derogation from national treatment as well as MFN obligations, even though Article XXIV, GATT 1994, appears to contemplate only exception from the requirement of MFN treatment.<sup>191</sup> Such assertions may arise as well in the TRIPS context, despite the lack of express reference to such possibilities.

### 5.2 Other international instruments

The relationship of the TRIPS national and MFN treatment provisions to the WIPO conventions has already been discussed (see above, Section 3).

The national and MFN treatment provisions of TRIPS may play a role in determining its relationship to the Convention on Biological Diversity (CBD). If a WTO Member adopts rules to implement its obligations under the CBD, those rules may be related to IP protection, for example, to patent protection. The rules that are adopted would apply to nationals of other Members based on application of the national treatment principle.

## 6. New developments

### 6.1 National laws

Articles 3, 4 and 5 became applicable to all WTO Members on January 1, 1996. Since most Members were party to the Paris and Berne Conventions that already

<sup>190</sup> The U.S. NAFTA notification is more limited than these others.

<sup>191</sup> The claims to exemption from national treatment are described and analyzed in Frederick M. Abbott, *GATT and the European Community: A Formula for Peaceful Coexistence*, 12 Mich. J. Int'l. L. 1 (1990).

## 6. New developments

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mandated national treatment in respect to patents, trademarks and copyright, the national treatment requirement of TRIPS should not have imposed any special implementation burdens on these Members. Nonetheless, many WTO Members modified their intellectual property legislation to take into account TRIPS Agreement requirements, and those that maintained inconsistencies from national treatment should have altered their legislation.

### 6.2 International instruments

### 6.3 Regional and bilateral contexts

#### 6.3.1 Regional

The notifications from regional groups have been discussed above (see Section 3).

The European Court of Justice (ECJ) has perhaps more than any other judicial body had occasion to analyze the national treatment principle in the context of the integration of markets. While GATT 1947 panel reports relating to national treatment dealt almost exclusively with the treatment of imported goods, the case law of the ECJ has frequently dealt with the treatment of persons. From the standpoint of TRIPS national treatment analysis, it may be useful to analyze and compare decisions of the ECJ for insight into how the WTO AB might evaluate differential treatment of persons to determine whether discrimination exists.<sup>192</sup>

Specifically on the subject of national treatment, the adoption by the EC of the Database Directive in 1995<sup>193</sup> raised interesting issues concerning the EC's understanding of the national treatment and MFN principles in TRIPS. In the Database Directive the EC established a *sui generis* data protection right (in Article 7) that is more extensive than that required by TRIPS.<sup>194</sup> In addressing the beneficiaries of that new right, the Directive states at Article 11:

- “1. The right provided for in Article 7 shall apply to databases whose makers or successors in title are nationals of a Member State or who have their habitual residence in the territory of the Community.
2. Paragraph 1 shall also apply to companies and firms formed in accordance with the law of a Member State [...].
3. Agreements extending the right provided for in Article 7 to databases manufactured in third countries and falling outside the provisions of paragraphs 1 and 2 shall be concluded by the Council acting on a proposal from the Commission. [...].”

The Database Directive clearly denies national treatment to persons in non-EC member states. That is, in order to benefit from database protection, a person must be a national of a member state (or habitually reside there). Article 11(3) foresees the denial of MFN treatment to countries outside the EC, as it authorizes

<sup>192</sup> Current ECJ case law and doctrine on national treatment may be found in Paul Craig and Grainne de Burca, *EU Law*, 2<sup>nd</sup> edition, Oxford, 1998.

<sup>193</sup> Common Position (EC) No 20/95 adopted by the Council on 10 July 1995 with a view to adopting Directive 95/EC of the European Parliament and of the Council... on the legal protection of databases (OJ C 288, 30 October 1995, p. 14).

<sup>194</sup> For a detailed analysis of the EC Database Directive, see Chapter 9, Section 6.3.

the Communities to extend the benefits of database protection on a country-by-country basis.

The only plausible justification for the expressly discriminatory features of the Database Directive is that the EC does not consider database protection to constitute “intellectual property” within the meaning of Article 1.2.<sup>195</sup> Assuming that the EC is correct in this view, the Database Directive shows that, at least in the opinion of the EC, advantages regarding the protection of information not strictly within the definition of intellectual property may be treated without regard to the fundamental principles of national and MFN treatment.

### 6.3.2 Bilateral

Developing WTO Members are often encouraged by developed Members to adopt so-called “TRIPS-plus” standards of intellectual property rights protection.<sup>196</sup> National and MFN treatment are relevant to the establishment of TRIPS-plus standards.<sup>197</sup> The consequences of importing increasingly high standards of IPR protection in regional and bilateral trade agreements has yet to be adequately studied from the standpoint of the MFN principle. Are members of regional and bilateral agreements that adopt TRIPS-plus standards obligated to provide those higher standards of protection to WTO Members not part of the arrangement? Since there is no exception for differential IPR treatment within arrangements negotiated after TRIPS (see Article 4(d)), this may appear to be the case. But if these higher standards make it more difficult for imports to penetrate the market (because of internal barriers), is this a “concession” as to which Members are benefiting as a consequence of MFN, or does this represent a withdrawal of concessions and a fundamental alteration of the conditions of competition as to third countries? The answer to this question may have broad systemic ramifications for the WTO.

### 6.4 Proposals for review

There are no formal proposals for review of the national treatment and MFN principles before the TRIPS Council. However, as part of the agenda of the working party on regional integration the place of the TRIPS Agreement is being evaluated along with other aspects of regional integration. Moreover, implicit in the Doha agenda discussions on improving the treatment of developing Members within the WTO framework is consideration of the extent to which national and MFN treatment may need to be adjusted in the interests of promoting development. For example, one of the main issues being addressed by the Working Group on Trade and Competition is the extent to which national competition policy in

<sup>195</sup> For an analysis of whether databases constitute “intellectual property” in the sense of Article 1.2, see Chapter 3, Section 3.1.

<sup>196</sup> This aspect of the TRIPS dynamic is addressed in Chapter 2, Section 3.2.

<sup>197</sup> On the implications of TRIPS-plus agreements in the context of the MFN treatment obligation, see also D. Vivas-Eugui, *Regional and bilateral agreements and a TRIPS-plus world: the Free Trade Area of the Americas (FTAA)*, TRIPS Issues Papers 1, Quaker United Nations Office (QUNO), Geneva; Quaker International Affairs Programme (QIAP), Ottawa; International Centre for Trade and Sustainable Development (ICTSD), Geneva, 2003 (available at <[http://www.geneva.quno.info/pdf/FTAA%20\(A4\).pdf](http://www.geneva.quno.info/pdf/FTAA%20(A4).pdf)>).

**7. Comments, including economic and social implications****89**

developing Members may accommodate preferences for local enterprises (e.g., small and medium enterprises (SMEs)), and whether a national treatment provision in a WTO competition agreement might adversely affect such preferences.<sup>198</sup> IPRs are the subject of general competition policy and decisions regarding national treatment in the competition context would have an impact on the competition provisions of TRIPS.

**7. Comments, including economic and social implications**

The Appellate Body has characterized the national treatment and MFN principles as fundamental to the WTO legal system, including TRIPS. The centrality of these principles to the GATT 1947 and the WTO multilateral trading system is unarguable. The MFN principle was adopted not only as a trade liberalization device, but perhaps even more importantly as a political instrument to reduce the tendency of governments to form alliances based on economic considerations. In the first half of the twentieth century, these political alliances had formed the backdrop of war. There was (and remains) a compelling justification for seeking to minimize potentially dangerous fragmentation of the global economy.

National treatment and MFN are not, however, an unalloyed benefit from the standpoint of developing Members of the WTO. Principles that require foreign economic actors to be treated on the same basis as local economic actors may place individuals and enterprises within developing countries at a distinct disadvantage in respect to more globally competitive foreign operators. Developing Members may "gain" from improved access to developed country markets to the extent their products are competitive. They may "lose" if local enterprises are unable to compete at home against more highly capitalized and efficient foreign operators. In some cases, the gains from access to foreign markets will not offset the losses to local enterprises in terms of lost profits and employment.<sup>199</sup> Care should therefore be taken not to oversell the benefits of national treatment and MFN from the standpoint of developing WTO Members.

This potential skewing of benefits is particularly significant in the TRIPS context. Developed Members of the WTO maintain tremendous advantages over developing Members in regard to existing stocks of technological assets, and the capacity for future research and development. By agreeing to treat foreign patent holders on the same basis as local patent holders, developing Members establish a level playing field on which the teams are of rather unequal strength.

The response of developed Members is that transfer of technology and capacity building will improve the developing country technology "teams". This concept, while elegant in theory, has seen only minimal implementation in practice.<sup>200</sup> If developing Members are sceptical, so far it is with good reason.

<sup>198</sup> See, e.g., Report of the Working Group on the Interaction Between, Trade and Competition Policy to the General Council, WT/WGTCP/6, 9 Dec. 2002, at para. 44.

<sup>199</sup> See Joseph Stiglitz, *Globalization and Its Discontents* (2002).

<sup>200</sup> For a deeper analysis of the interplay between IPR protection and technology transfer, see UNCTAD-ICTSD, *Intellectual Property Rights: Implications for Development*. Policy Discussion Paper, Geneva, 2003, Chapter 5 (Technology Transfer). For an analysis of Article 66.2, TRIPS Agreement (concerning the promotion of technology transfer to LDC Members), see Chapter 34.

**Annex** Beneficiaries of and Exceptions to National Treatment under Treaties Administered By WIPO, Communication from the World Intellectual Property Organization, MTN.GNG/NG11/W/66, 28 February 1990

## II. LIST OF EXCEPTIONS TO NATIONAL TREATMENT

### (a) under the Paris Convention

6. The following exceptions to national treatment are contained in the Paris Convention:

- i) the provisions of the laws of each of the countries party to the Paris Convention relating to judicial or administrative procedure and to jurisdiction, which may be required by the laws on industrial property, are expressly reserved (Paris Convention, Article 2(3));
- ii) the provisions of the laws of each of the countries party to the Paris Convention relating to the designation of an address for service or the appointment of an agent, which may be required by the laws on industrial property, are expressly reserved (Paris Convention, Article 2(3)).

### (b) under the Berne Convention

7. The following exceptions to national treatment are contained in the Berne Convention:

- i) where a work is protected in the country of origin solely as an industrial design – and not (also) as a work of applied art, i.e., by copyright law – that work is entitled in another country party to the Berne Convention only to such special protection as is granted in that country to industrial designs – even though copyright protection is available in that country (Berne Convention, Article 2(7), second sentence, first part);
- ii) where a country not party to the Berne Convention fails to protect in an adequate manner the works of authors who are nationals of one of the countries party to the Berne Convention, the latter country may restrict the protection given – on the basis of their first publication in that country – to the works of authors who are, at the date of the first publication thereof, nationals of the other country and are not habitually resident in one of the countries party to the Berne Convention; if the country of first publication avails itself of this right, the other countries party to the Berne Convention are not required to grant to works thus subjected to special treatment a wider protection than that granted to them in the country of first publication (Berne Convention, Article 6(1));
- iii) in the country where protection is claimed, the term of protection shall not, unless the legislation of that country otherwise provides, exceed the term fixed in the country of origin of the work (Berne Convention, Article 7(8));
- iv) the right (“droit de suite”), enjoyed by the author, or, after his death, by the persons or institutions authorized by national legislation, to an interest in any sale of the work – which is either an original work of art or an original manuscript of a writer or composer – subsequent to the first transfer by the author of the work may be claimed in a country party to the Berne Convention only if legislation in

the country to which the author belongs so permits, and to the extent permitted by the country where this right is claimed (Berne Convention, Article 14ter(1) and (2));

v) in relation to the right of translation of works whose country of origin is a country – other than certain developing countries – which, having used the limited possibility of reservations available in that respect\*, has declared its intention to apply the provisions on the right of translation contained in the Berne Convention of 1886 as completed by the Additional Act of Paris of 1896 (concerning the restriction, under certain conditions, of the term of protection of the right of translation to ten years from the first publication of the work), any country has the right to apply a protection which is equivalent to the protection granted by the country of origin (Berne Convention, Article 30(2)(b), second sentence).

(c) under the IPIC Treaty

8. The following exceptions to national treatment are contained in the IPIC Treaty:

- i) any Contracting Party is free not to apply national treatment as far as any obligations to appoint an agent or to designate an address for service are concerned (IPIC Treaty, Article 5(2));
- ii) any Contracting Party is free not to apply national treatment as far as the special rules applicable to foreigners in court proceedings are concerned (IPIC Treaty, Article 5(2)).

\* Only four States have maintained such a reservation.

## 5: Exhaustion of Rights

### Article 6 Exhaustion

For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

### Paragraph 5 of the Doha Declaration on the TRIPS Agreement and Public Health

5. Accordingly and in the light of paragraph 4 above, while maintaining our commitments in the TRIPS Agreement, we recognize that these flexibilities include:

[...]

(d) The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.

### 1. Introduction: terminology, definition and scope

Article 6 addresses the exhaustion of intellectual property rights. The concept of exhaustion plays an enormously important role in determining the way that intellectual property rules affect the movement of goods and services in international trade.

An intellectual property right, such as patent, trademark or copyright, is typically defined in terms of rights granted to the holder to prevent others from making use of it. For example, a patent grants to an inventor the right to prevent others from making, using, selling, offering for sale, or importing the invention without his or her consent. The trademark grants to its holder the right to prevent others from using a protected sign on identical or similar goods where such use is likely to cause consumer confusion. The copyright grants to its holder the right to prevent others from reproducing or distributing the work.

## 1. Introduction: terminology, definition and scope

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The doctrine of exhaustion addresses the point at which the IPR holder's control over the good or service ceases. This termination of control is critical to the functioning of any market economy because it permits the free transfer of goods and services. Without an exhaustion doctrine, the original IPR holder would perpetually exercise control over the sale, transfer or use of a good or service embodying an IPR, and would control economic life.

An IPR is typically exhausted by the "first sale" (U.S. doctrine) or "placing on the market" of the good or service embodying it. The basic idea is that once the right holder has been able to obtain an economic return from the first sale or placing on the market, the purchaser or transferee of the good or service is entitled to use and dispose of it without further restriction.

As illustration, consider a can of soda labelled with the famous "Coca-Cola" trademark. Because the Coca-Cola Company holds rights to that mark, it may prevent others from first-selling the can of soda without its consent. If you buy the can of soda from an authorized first-seller, the Coca-Cola Company's right in its trademark is exhausted, and it cannot prevent you from drinking the soda, or from giving or selling the can of soda to someone else. The trademark holder has lost its right to control further disposition of the product. Your purchase of the can of Coca-Cola does not authorize you to begin making your own cans of Coca-Cola, or licensing the mark to others. In other words, the first sale does not grant you rights in the trademark, but rather it extinguishes the Coca-Cola Company's entitlement to control movement of that particular can of soda.

From the standpoint of the international trading system, the focus of the exhaustion question is whether it operates on a national, regional or international basis. IPRs are typically granted by national authorities. With the grant of an IPR, the patent, trademark or copyright holder obtains a "bundle of rights" that it may exercise within the territory of the granting authority. When a good or service is first sold or marketed in a country, this exhausts the IPR embodied in it.<sup>201</sup> Yet the same IPR holder may hold equivalent or "parallel" rights in many countries. The Coca-Cola Company, again for illustrative purposes, may hold trademark registrations for the Coca-Cola mark in every country of the world.

A country may choose to recognize that exhaustion of an IPR occurs when a good or service is first sold or marketed outside its own borders. That is, the first sale or marketing under a "parallel" patent, trademark or copyright abroad exhausts the IPR holder's rights within that country. If exhaustion occurs when a good or service is first sold or marketed outside a country, the IPR holder within the country may not oppose importation on the basis of its IPR. The importation of a good or service as to which exhaustion of an IPR has occurred abroad is commonly referred to as "parallel importation", and the goods and services subject to such trade are commonly referred to as "parallel imports". Since goods and services

<sup>201</sup> The manner in which IPRs are affected by exhaustion doctrine may vary depending on the characteristics of the form of protection. For example, while the first sale of a book will exhaust the copyright holder's right to control distribution of the book, the first showing of a film may not exhaust the right to control further showing of the film. For a discussion of the rental right in cinematographic works under Article 11, TRIPS, see Chapter 10.

subject to exhaustion of IPRs are exported as well as imported, the subject matter of trade in such goods is commonly referred to as “parallel trade”.

If a country recognizes a doctrine of “national” exhaustion, an IPR holder’s right to control movement of a good or service is only extinguished by the first sale or marketing of a good or service within the territory of that country. If a country recognizes a doctrine of “regional” exhaustion, an IPR holder’s right to control movement is extinguished when a good or service is first sold or marketed in any country of the region. If a country recognizes a doctrine of “international exhaustion”, an IPR holder’s right to control movement is extinguished when a good or service is first sold or marketed anywhere in the world.

The flow of goods and services across borders is significantly affected by the exhaustion doctrine that WTO Members choose to adopt. Under a doctrine of international exhaustion, goods and services flow freely across borders after they have been first sold or placed on the market under certain conditions anywhere in the world. Under a doctrine of national exhaustion, the movement of goods and services may be blocked by IPR holders. Under national exhaustion, IPR holders have the power to segregate markets.

There is considerable debate concerning whether granting IPR holders the power to segregate markets is good or bad from various perspectives – economic, social, political and cultural. From the standpoint of those favouring open markets and competition, it may appear fundamentally inconsistent to permit intellectual property to serve as a mechanism to inhibit trade. Yet IPR holders argue that there are positive dimensions to market segregation, and corollary price discrimination.

During the GATT TRIPS negotiations, there was fairly extensive discussion of the exhaustion issue, but governments did not come close to agreeing upon a single set of exhaustion rules for the new WTO. They instead agreed that each WTO Member would be entitled to adopt its own exhaustion policy and rules. This agreement was embodied in Article 6, precluding anything in that agreement from being used to address the exhaustion of rights in dispute settlement, subject to the TRIPS provisions on national and MFN treatment.

## 2. History of the provision

### 2.1 Situation pre-TRIPS

Prior to negotiation of the TRIPS Agreement governments maintained different policies and rules on the subject of exhaustion of intellectual property rights in so far as those policies and rules affected international trade.<sup>202</sup> The situation in Europe and in the United States was rather complicated, as countries not only

<sup>202</sup> The first clear articulation of the concept of exhaustion of IPRs is sometimes traced to an 1873 U.S. Supreme Court decision, *Adams v. Burke* U.S. (17 Wall) 453 (1873). This case involved an attempt by the holder of a patent on a funeral casket lid to impose territorial restrictions on a purchaser’s resale of caskets incorporating that lid. The Supreme Court held that the patent holder’s control over the invention was exhausted on the first sale. It said:

“in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine

## 2. History of the provision

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followed different approaches to the questions of national, regional and international exhaustion, but often differentiated their policies and rules depending upon the type of IPR affected.

In the United States, for example, the Supreme Court had addressed the issue of exhaustion in the field of trademarks, and interpreted domestic law to establish a “common control” doctrine.<sup>203</sup> If a product protected by a U.S. trademark was first sold abroad by a company owned or under common control with a company in the United States, the U.S. trademark could not be invoked to prevent parallel imports. However, if the product was first sold abroad by an independent company, or a licensee of the U.S. trademark holder, parallel imports could be blocked.

The Supreme Court had never expressly addressed the question of parallel importation in the field of patents.<sup>204</sup> Several important Court of Appeals decisions held in favour of international exhaustion of patent rights.<sup>205</sup> There was some contrary opinion at the district court level.<sup>206</sup> In the field of copyright, there was little in the way of judicial decision regarding national and international exhaustion prior to TRIPS, although this subject matter has been addressed with some frequency following its negotiation.

The European Court of Justice (ECJ) pioneered the exhaustion question in so far as it affected the movement of goods across borders. In 1964, shortly following the formation of the European Community, the ECJ was confronted in *Consten and Grundig* with an attempt by a manufacturer of audio equipment to prevent trade in its products among the member states by invoking parallel trademark rights.<sup>207</sup> The ECJ immediately recognized that the goal of European market integration would be inhibited if trademark holders could block the free movement of goods, and at that early stage invoked competition law principles to preclude such action. Subsequently, the ECJ framed its jurisprudence on this subject, fashioning an “intra-Community exhaustion doctrine”, on the basis of the prohibition in the EC Treaty against quantitative restrictions and measures with equivalent effects (Article 28, EC Treaty, 1999 numbering).<sup>208</sup>

or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.” (453 U.S., at 456)[footnote omitted]

<sup>203</sup> *Kmart v. Cartier*, 486 U.S. 281 (1988).

<sup>204</sup> A case sometimes cited to the effect that the U.S. prohibited parallel importation in patented goods is *Boesch v. Graff* 133 U.S. 697 (1890). That case, however, involved goods first sold outside the United States under a “prior user’s” exception to patent rights, and without the consent of the patent holder. (According to the prior user exception, a third person using the invention in good faith prior to the filing of the patent may continue the use of the invention in spite of the granting of the patent.) The potential implications of this decision are analyzed below.

<sup>205</sup> See most notably *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.*, 266 F. 71 (2d Cir. 1920) and further cases discussed in Margreth Barrett, *The United States’ Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. KY. L. REV. 911 (2000).

<sup>206</sup> See, e.g., *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978).

<sup>207</sup> *Consten and Grundig v. Commission*, Cases 56, 58/64, [1966] ECR 299.

<sup>208</sup> The entire early history of ECJ jurisprudence on the subject of exhaustion is framed in terms of the tension between Article 30, EC Treaty (prohibiting quantitative restrictions and measures with equivalent effect) and Article 36, EC Treaty (allowing measures to protect IPRs). The EC Treaty was renumbered in 1999, so that former Article 30 is now Article 28, and former Article 36 is now Article 30. This makes for considerable confusion when discussing ECJ jurisprudence in this field.

Prior to the TRIPS Agreement negotiations all EC member states were subject to the “intra-Community” exhaustion rule in all fields of IPR protection.<sup>209</sup> There was an extensive body of case law in which the ECJ had refined this rule in particular contexts. For example, the Court recognized that the showing or broadcast of films presented special circumstances that required certain limitations on the general “placing on the market” rule.<sup>210</sup> In the field of trademarks, the Court allowed parallel traders flexibility in repackaging and labelling pharmaceuticals so long as this did not present a threat to consumer safety.<sup>211</sup> The ECJ further indicated in the context of a decision on rental rights that a certain level of approximation of IPR laws among the member states was necessary to protect the interests of rights holders.<sup>212</sup> EC member states were thus subject to a uniform rule of “intra-Community” or “regional” exhaustion across all fields of IP (or at least those with a sufficient level of approximation).

Though not free from doubt, the EC rule on patents appeared to contemplate that only goods placed on the market in a member state would be subject to the rule of exhaustion.<sup>213</sup> Thus, while the placing of a patented good on the market within the territory of the Community exhausted the patent holder’s rights and allowed free movement within the Community, the placing of a patented good on the market outside the Community did not affect the patent holder’s rights within the Community, and parallel importation could be blocked. EC member states maintained different approaches to international exhaustion in the field of trademarks, and until the adoption of the First Trade Marks Directive in 1988 the ECJ had not sought to impose a uniform approach. EC member states differed on the question whether the Directive mandated a uniform approach to the international exhaustion question.<sup>214</sup> Prior to the TRIPS Agreement negotiations, member states also maintained different approaches to the international exhaustion question in the field of copyright.<sup>215</sup> At the outset of the TRIPS negotiations in 1986, the EC did not approach the exhaustion question with a “single voice”.

<sup>209</sup> Regarding patents, the leading case was *Centrafarm v. Sterling Drug*, Case 15/74, 1974 ECR 1147.

<sup>210</sup> See *Coditel SA v. Cine-Vog Films*, Case 62/79, [1980] ECR 881, [1981] CMLR 362, decision of Mar. 18, 1980 (Coditel I); see also *Coditel SA v. Cine-Vog Films*, Case 262/81, [1982] ECR 3381, [1983] 1 CMLR 49, decision of Oct. 6, 1982 (Coditel II) [regarding the potential applicability of former Article 85 EC Treaty on anti-competitive inter-firm agreements to the same facts].

<sup>211</sup> See *Pharmacia & Upjohn SA v. Paranova A/S*, Case C-379/97, 12 Oct. 1999.

<sup>212</sup> See *Warner Brothers v. Christiansen*, Case 158/86, [1988] ECR 2605, [1990] 3 CMLR 684.

<sup>213</sup> See, e.g., *Merck v. Stephan*, Case 187/80, [1981] ECR 2063, [1981] 3 CMLR 463 and *Polydor v. Harlequin Record Shops*, Case 270/80, [1982] ECR 329, [1982] 1 CMLR 677, Feb. 9, 1982 [broadly referring to industrial property rights]; cf. W.R. Cornish, INTELLECTUAL PROPERTY, 4<sup>th</sup> ed. 1999, at 6-15/6-16 [hereinafter Cornish].

<sup>214</sup> First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC), OJ L 040, 11/02/1989 P.0001-0007. These differences were not settled until the ECJ’s decision in *Silhouette v. Hartlauer* in 1998, in which it imposed a mandatory “intra-Community exhaustion” rule in trademarks, to the exclusion of international exhaustion. See discussion below, Section 6.3.

<sup>215</sup> Cf. Cornish, at 1-59.

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Other countries and regions had also considered the question of national or international exhaustion. Japan<sup>216</sup> and Switzerland<sup>217</sup> each had substantial jurisprudence on the subject. The countries of Latin America appeared largely to favour international exhaustion. Decision 85 on Industrial Property of the Andean Commission excluded the right to prevent importation from patent holders, effectively providing for international exhaustion.<sup>218</sup> Decision 85 established an express rule of regional exhaustion in respect of trademarks.<sup>219</sup> South Africa maintained a rule of international exhaustion in the fields of patent<sup>220</sup> and trademark.<sup>221</sup>

Prior to the TRIPS negotiations there had been little in the way of systematic investigation of the potential impact of various exhaustion regimes on international trade and/or economic development. The European Court of Justice had identified that enforcement of national IPRs rules might play an important role in European efforts to integrate markets.

### 2.2 Negotiating history

#### 2.2.1 Initial proposals

The subject of exhaustion of rights and parallel importation was discussed in the TRIPS Negotiating Group (TNG) on a substantial number of occasions during the Uruguay Round. It is evident from those discussions that delegations perceived the subject matter of importance, and had different views regarding the appropriate outcome. It is important to note that contemporaneous discussions on this subject matter were taking place at WIPO in the context of patent law harmonization negotiations throughout much of the TRIPS negotiations. In neither forum

<sup>216</sup> Report of Mitsuo Matsushita to Committee on International Trade Law of the International Law Association, noted in Abbott, First Report, Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation*, 1 J. Int'l Econ. L. 607 (1998).

<sup>217</sup> See Thomas Cottier and Marc Stucki, *Parallelimporte im Patent-, Urheber- und Muster- und Modellrecht aus europarechtlicher und völkerrechtlicher Sicht*, in B. Dutoit (edit.), *Conflits entre importations parallèles et propriété intellectuelle?*, Librairie Droz, Geneva 1996, p. 29 et seq.

<sup>218</sup> Article 28, Decision 85, provided:

"Article 28. With the limitations stipulated in the present Regulation, the patent shall confer on its owner the right to exploit the invention itself in an exclusive manner, to grant one or more licenses for its exploitation, and to receive royalties or compensation deriving from its exploitation by third persons.

The patent shall not confer an exclusive right to import the patented product or one manufactured under his patented process." [13 Int'l Legal Mat'l 1478, 1492 (1974)]

See Frederick M. Abbott, *Bargaining Power and Strategy in the Foreign Investment Process; A Current Andean Code Analysis*, 3 SYR. J. INT'L L & COMM. 320, 346-51 (1975).

<sup>219</sup> Article 75, Decision 85, provided:

"Article 75. The owner of a trademark may not object to the importation or entry of merchandise or products originating in another Member Nation, which carry the same trademark. The competent national authorities shall require that the imported goods be clearly and adequately distinguished with an indication of the Member Nation where they were produced." [13 Int'l L. Mat'l 1478, (1974)].

[It is not clear whether this rule was intended to exclude international exhaustion in the field of trademarks.]

<sup>220</sup> See *Stauffer Chemical Company v. Agricura Limited* 1979 BP 168.

<sup>221</sup> See Trade Marks Act 1993, Article 34(2)(d).

did governments come close to agreeing on uniform treatment of the exhaustion question.

The initial 1987 U.S. proposal for a TRIPS Agreement did not reference the subject of exhaustion.<sup>222</sup>

A compilation of written and oral submissions regarding trade in counterfeit goods circulated by the GATT Secretariat in April 1988 noted concerns regarding parallel imports. It said:

“27. The question has been raised as to what would be the substantive intellectual property norms by reference to which counterfeit goods should be defined. In this regard the following points have been made:

...

– parallel imports are not counterfeit goods and a multilateral framework should not oblige parties to provide means of action against such goods.”<sup>223</sup>

This compilation noted similar observations concerning the need to preserve rights of parallel importation in connection with border measures and safeguards to protect legitimate trade.<sup>224</sup>

The first EC proposal on substantive standards of July 1988 acknowledged the subject matter of exhaustion in regard to trademarks, though not specifically in the import context.<sup>225</sup>

Through the course of negotiations in 1989, a number of comments were directed at assuring that any rules developed in regard to border enforcement measures not be applied to parallel import goods, both in respect to copyright and trademark.<sup>226</sup> The Indian delegation specifically objected to a U.S. proposal to provide for national exhaustion in respect of trademarks:

“The representative of India said that he disagreed with the United States proposal in relation to the exhaustion of rights. Referring to paragraph 38 of the Indian paper, he said that the principle of international exhaustion of rights should apply to trademarks.”<sup>227</sup>

<sup>222</sup> United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights, Nov. 3, 1987, at Patents (text reprinted in *U.S. Framework Proposal to GATT Concerning Intellectual Property Rights*, 4 BNA INT'L TR. REPTR. 1371 (Nov. 4, 1987)).

<sup>223</sup> Trade in Counterfeit Goods: Compilation of Written Submissions and Oral Statements, Prepared by the Secretariat, MTN.GNG/NG11/W/23, 26 April 1988.

<sup>224</sup> *Id.*, para. 38(iii).

<sup>225</sup> The EC proposal stated:

“Limited exceptions to the exclusive rights conferred by a trademark, which take account of the legitimate interests of the proprietor of the trademark and of third parties, may be made, such as fair use of descriptive terms and exhaustion of rights.” Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade Related Aspects of Substantive Standards of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/26, July 1988, at III.D.3.b(i).

<sup>226</sup> Note by the Secretariat, Meeting of Negotiating Group of 3–4 July 1989, MTN.GNG/NG11/13, 16 August 1989, e.g., at para. D7; Note by the Secretariat, Meeting of Negotiating Group of 12–14 July 1989, MTN.GNG/NG11/14, 12 September 1989, at para. 26.

<sup>227</sup> *Id.*, Meeting of 3–4 July 1989, at para. 45.

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In 1989, Canada made a proposal to specifically provide for international exhaustion of rights in respect to the protection of layout-designs of integrated circuits.<sup>228</sup>

In March 1990, the EC tabled a draft text for a TRIPS Agreement<sup>229</sup> that provoked substantial comment from other delegations on the subject of exhaustion. As stated in a note by the GATT Secretariat:

"Article 4: Customs Unions and Free Trade Areas... The representative of the Community said that the underlying purpose of the Article was to enable the Community to continue to apply the principle of Community exhaustion in respect of trade among the member States.

...

Trademarks. A participant expressed concern that provisions on the very important concepts of parallel imports and exhaustion of rights were absent in the proposed draft agreement. Another participant asked if, under the Community proposal, trademark rights could or could not be used to prevent parallel imports. A further participant was of the view that the proposed Articles on trademarks would enable parallel imports of genuine goods to be prohibited; this conflicted with the Paris Convention and might lead to a division of markets, thus resulting in impediments and distortions of trade.

...

[Patents] Article 24: Rights Conferred. A participant expressed the view that the proposed provisions on rights conferred were not in line with the principles of intellectual property protection, for example because they tried to invalidate parallel imports and the doctrine of exhaustion of rights....<sup>230</sup>

A proposal from the United States<sup>231</sup> shortly following the EC proposal likewise elicited a significant number of concerns regarding the exhaustion question. According to the GATT Secretariat:

Article 2. [Copyright] ... In answer to a question, he [i.e. the U.S. delegate] said paragraph (2)(b) could be clarified at a later stage, but the intent was that exhaustion of rights in one territory would not exhaust rights elsewhere. In that light, if goods put on the market in one country were exported to another country where exhaustion had not taken place, it would not undermine the rights established by paragraph (2)(a). Some participants said that they were concerned about the introduction of a right of importation, both here and in Article 9(b), since it could affect the right to effect parallel importations; such a right was not called for by the Berne Convention and could in itself give rise to trade distortions, especially in small countries. Another participant felt the relationship between the right of importation and the right of first distribution was not clear, the latter seeming to

<sup>228</sup> Note by the Secretariat, Meeting of Negotiating Group of 30 October-2 November 1989, MTN.GNG/NG11/16, 4 December 1989, at discussion of paragraph 13 of proposal.

<sup>229</sup> European Communities, Draft Agreement on Trade-Related Aspects of Intellectual Property Rights, MTN.GNG/NG11/W/68, 29 March 1990.

<sup>230</sup> Note by the Secretariat, Meeting of Negotiating Group of 2, 4 and 5 April 1990, MTN.GNG/NG11/20, 24 April 1990.

<sup>231</sup> Communication from the United States (NG11/W/70).

cover the former. In response to a question, the representative of the United States indicated that paragraph (2)(a) would not prevent imports of legitimate goods.

19. In relation to the proposed provisions on trademarks, a participant expressed concern about the absence of provisions . . . on parallel imports and exhaustion of rights. The following specific points were made in relation to the United States proposal on trademarks:

...

Article 12: Rights Conferred. Answering a query, the representative of the United States said that the last sentence of the first paragraph did not refer to parallel imports. The reason for this formulation was that his delegation had a difficulty with the comparable statement in the Community text which suggested that confusion should not be required where an identical sign was used on an identical good, because it had some difficulty in providing rights in the trademark area where confusion did not exist. The proposal that confusion would be presumed to exist in such cases was aimed at bridging this difference. A participant wondered if "use" of a mark included advertising and distribution and whether it could be presumed that exhaustion of rights would be left to national legislation. Some participants felt that the balance in the second paragraph leant perhaps too strongly towards the interests of international companies and could create uncertainty for domestic industry. . . .<sup>232</sup>

### 2.2.2 The Anell Draft

The text prepared and distributed by Chairman Anell in July 1990 contained limited reference to the subject of exhaustion.<sup>233</sup> It provided:

"4. Exceptions

4A Limited exceptions to the exclusive rights conferred by a trademark, such as fair use of descriptive terms, may be made, provided that they take account of the legitimate interests of the proprietor of the trademark and of third parties.

4B Rights shall be subject to exhaustion if the trademarked goods or services are marketed by or with the consent of the owner in the territories of the PARTIES.

...

### SECTION 4: SPECIAL REQUIREMENTS RELATED TO BORDER MEASURES<sup>1</sup>

15. Suspension of Release by Customs Authorities

15A Without prejudice to point 21 of this Part, PARTIES shall, in conformity with the provisions set out below, establish procedures according to which a right holder, who has valid grounds for suspecting that the importation of [goods which infringe his intellectual property right] [counterfeit trademark or pirated copyright goods] may take place, may lodge an application in writing with the competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. [This provision does not create an obligation to apply such procedures to parallel imports]."

<sup>232</sup> Note by the Secretariat, Meeting of Negotiating Group of 14-16 May 1990 MTN.GNG/NG11/21, 22 June 1990.

<sup>233</sup> Status of Work in the Negotiating Group, Chairman's Report to the GNG, MTN.GNG/NG11/W76, 23 July 1990 [hereinafter Anell Draft].

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[...]

[Note 1]: It will be made clear at an appropriate place in any agreement that, for the European Communities and for the purposes of this Section, the term "border" is understood to mean the external border of the European Communities with third countries.

### 2.2.3 The revised Anell Draft

However, subsequent to formal distribution of the July 1990 text, Chairman Anell distributed in October 1990 an informal text that incorporated a revised provision on exhaustion. Although that informal text has not yet been made publicly available, it was commented upon in a TNG meeting of 1 November 1990.

"3. Speaking on behalf of a number of developing countries, a participant welcomed the structure of the paper which, he said, was in line with the mandate provided in the Mid-term Review. By separating the text into two distinct agreements respectively dealing with trade-related aspects of intellectual property rights and trade in counterfeit and pirated goods, the paper conformed to the intent of the Punta del Este negotiating mandate..... Regarding its substantive contents, he wished to put on record the view that the paper did not adequately take into account the special needs and problems of developing countries. Flexibility in favour of developing countries was required in any TRIPS agreement, in view of their special developmental and technological needs....

4. Continuing, he then highlighted some provisions of the text which differed from other provisions because the problems involved were of a more fundamental character, while emphasising that this should not be interpreted as an acceptance of provisions he would not mention..... He welcomed the inclusion in the text of a general provision on exhaustion, which was a basic principle relating to intellectual property rights and as such should not be subject to any exceptions or conditions which might weaken or invalidate its application. In this connection, he said that it should be clarified throughout the text that any references to exclusive rights of importation implied a right to exclude only infringing goods. Alternatively, the grant of this right should be left to the discretion of Parties."<sup>234</sup>

### 2.2.4 The Brussels Draft

The Brussels Draft began to approximate the final text of Article 6, but the differences are important and instructive.

"Article 6: Exhaustion<sup>3</sup>

Subject to the provisions of Articles 3 and 4 above, nothing in this Agreement imposes any obligation on, or limits the freedom of, PARTIES with respect to the determination of their respective regimes regarding the exhaustion of any intellectual property rights conferred in respect of the use, sale, importation or other distribution of goods once those goods have been put on the market by or with the consent of the right holder.

[Footnote 3]: For the purposes of exhaustion, the European Communities shall be considered a single Party."

<sup>234</sup> Meeting of the Negotiating Group of 1 Nov. 1990, MTN.GNG/NG11/27,14 Nov. 1990.

It may first be noted that the Brussels text was framed in terms of substantive obligations under TRIPS and not as a limitation on dispute settlement on the subject of exhaustion. The later move toward preclusion of dispute settlement is emblematic of the inability of the parties to reach any substantive agreement on the exhaustion issue.

That inability to reach any substantive conclusion may at least in part be explained by the phrase "once those goods have been put on the market by or with the consent of the right holder". There was considerable debate concerning the scope of the exhaustion doctrine throughout the Uruguay Round. A number of developing countries did not wish to limit application of the doctrine to circumstances in which the IPR holder had consented to placing goods on the market, because there are other circumstances that were considered potentially to exhaust rights, such as sales under compulsory license.

In addition, reference to exhaustion of "rights conferred in respect of the use, sale, importation or other distribution of goods" differed substantially from the formula on exhaustion of rights contemporaneously under negotiation at WIPO in the patent law harmonization context, which is discussed in the next paragraphs.

It is also important to observe that at this stage the EC's intra-Community exhaustion doctrine would have been expressly addressed in a footnote to Article 6, and this was subsequently dropped.

The negotiating parties ultimately rejected a formula that would have essentially defined the scope of exhaustion doctrine.

Commencing in 1985,<sup>235</sup> a Committee of Experts on the Harmonization of Certain Provisions in Law for the Protection of Inventions was established under the authority of the International (Paris) Union for the Protection of Intellectual Property. As the name of this Committee implies, it was charged with seeking to establish common rules in the field of patents. The scope of this project was initially broad, as governments sought to agree upon harmonized substantive provisions of patent law. In late 1992, the scope of this project was limited by the removal of a number of basic articles from the negotiations.<sup>236</sup>

Article 19 of the Committee of Experts Draft Treaty on the Harmonization of Patent Laws (Eighth Session, June 11 to 22, 1990) concerns Rights Conferred by the Patent. The first two paragraphs of the proposal are directed at establishing basic rights in respect to product and process patents. The third paragraph concerns permissible exceptions to patent rights, and the fourth deals with the subject of contributory infringement (not relevant here). The text provides:

"Article 19

(formerly Article 302 [of prior draft text])

Rights Conferred by the Patent

Alternative A

<sup>235</sup> See *WIPO Experts Make Progress On Patent Harmonization Draft*, BNA's Patent, Trademark & Copyright Journal, Analysis, January 10, 1991, 41 PTCJ 231 (Issue No. 1013), Lexis/Nexis Database, at Introduction.

<sup>236</sup> See Paris Union Assembly, Nineteenth Session, WIPO doc. P/A/XIX/3, July 31, 1992.

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[Products] Where the subject matter of the patent concerns a product, the owner of the patent shall have the right to prevent third parties from performing, without his authorization, at least the following acts:

the making of the product,

the offering or the putting on the market of the product, the using of the product, or the importing or stocking of the product for such offering or putting on the market or for such use.

[Processes] ...

[Exceptions to Paragraphs (1) and (2)] (a) Notwithstanding paragraphs (1) and (2), any Contracting Party shall be free to provide that the owner of a patent has no right to prevent third parties from performing, without his authorization, the acts referred to in paragraphs (1) and (2) in the following circumstances:

where the act concerns a product which has been put on the market by the owner of the patent, or with his express consent, insofar as such an act is performed after that product has been put on the market in the territory of that Contracting Party, or, in the case of a regional market, in the territory of one of the members States of such group."

The WIPO draft text would have permitted a state to adopt national or regional exhaustion, but not international exhaustion. This was in fact an issue that remained controversial within the WIPO negotiations until the time the negotiations were suspended. The important aspect for present purposes is that the WIPO text uses a formula for substantively defining the exhaustion principle that is different than that under discussion at the GATT. The WIPO text refers to permitting "acts" in relation to patented products, with reference back to rights otherwise ascribed to the patent holder.

### 2.2.5 The Dunkel Draft

The Dunkel Draft text of Article 6 distributed in late 1991 is identical to Article 6, TRIPS Agreement.

At a 1998 meeting on the subject of exhaustion of rights and parallel importation, Mr. Adrian Otten, Director of the WTO Intellectual Property Division, who served as Secretary to the Trade Negotiating Group during the Uruguay Round negotiations, presented an oral description of the negotiations. That presentation was summarized in a report on the 1998 meeting:

"Adrian Otten (WTO) – Mr. Otten pointed out that the treatment of exhaustion of rights in the TRIPS Agreement was the subject of difficult and intensive negotiations during the Uruguay Round. The formula in Article 6, TRIPS Agreement, reflects a compromise between governments favoring an explicit recognition of national discretion in regard to exhaustion practices, including the choice of national or international exhaustion, and governments not wanting to provide such recognition although not seeking to regulate such practices specifically. The penultimately proposed formula would have indicated that the TRIPS Agreement did not address the issue of exhaustion of rights, while the final formula indicates that for purposes of dispute settlement under the TRIPS Agreement, nothing in that Agreement (subject to articles 3 and 4) will be used to address the issue of

exhaustion. Both sides to the negotiations preferred the final formula. Mr. Otten observed that earlier proposals, on the one hand, for a provision restricting the scope for parallel imports in situations where prices had been influenced by government measures such as price controls and for a specific rule providing rights against parallel imports in the copyright area and, on the other hand, a provision requiring international exhaustion, at least in the trademark area, were rejected during these negotiations. In a subsequent comment from the floor, Mr. Otten indicated that he remains to be convinced that provisions of WTO agreements outside the TRIPS Agreement may not be used to address national laws on the exhaustion of IPRs, where the treatment accorded depends on the geographical origin of the goods rather than the nationality of the persons involved.”<sup>237</sup>

### 3. Possible interpretations

Interpretation of Article 6 is among those aspects of TRIPS that have been most intensively discussed and written about. There are two main areas of controversy, although one of these has been definitively resolved by the Doha Declaration on the TRIPS Agreement and Public Health (see discussion below).

“For the purposes of dispute settlement under this Agreement . . .”

The first clause refers specifically to “dispute settlement under this Agreement.” Rights in intellectual property may have effects in other areas of WTO regulation. For example, technology protected by IPRs may be part of a technical standard that is regulated by the Agreement on Technical Barriers to Trade (TBT Agreement). The conformity of a technical standard with the TBT Agreement may be challenged in dispute settlement. The plain language of Article 6 suggests that rules of TRIPS might be used to address an exhaustion of IPRs issue in dispute settlement under the TBT. Moreover, the question of exhaustion is intricately connected with the free movement of goods, as recognized early on by the European Court of Justice. An IPR may have the same effects as a quota. There is a possibility for a Member to assert that a rule of national exhaustion that permitted IPRs holders to block importation of goods is inconsistent with Article XI, GATT 1994, that provides:

“1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained . . .”

The plain language of Article 6 appears to allow a GATT panel to evaluate an IPR as a measure with the equivalent effect of a quota. This possibility is acknowledged

<sup>237</sup> Remarks of Adrian Otten in Frederick M. Abbott, *Second Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of the Exhaustion of Intellectual Property Rights and Parallel Importation*, presented in London, July 2000, at the 69<sup>th</sup> Conference of the International Law Association, rev. 1.1 [hereinafter “Second Report”] (posted at <http://www.ballchair.org>).

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by several leading TRIPS experts who were closely involved in the Uruguay Round negotiations.<sup>238</sup>

Other TRIPS experts have argued that the Agreement constitutes a “lex specialis” or self-contained set of rules applicable to IPRs and trade regulation, and that the exhaustion question could not be examined by a GATT panel.<sup>239</sup> There is no WTO DSB jurisprudence on this issue, and for the time being the subject matter is open. However, the Appellate Body has placed great reliance on the plain language and meaning of the WTO Agreements, and the plain meaning certainly appears to support the view that the issue of exhaustion and relevant TRIPS rules could be examined in a dispute under an agreement other than TRIPS.

Another aspect of the first clause is that it is directed to WTO dispute settlement, and so does not directly preclude actions before national courts on exhaustion issues. This limitation was argued by certain Members and their industry groups to be synonymous with saying that Members are not permitted to adopt their own policies and rules on the subject of exhaustion, but rather that rules on this subject are established by TRIPS. Most prominently, pharmaceutical industry associations argued that Article 28, TRIPS Agreement, establishing the rights of patent holders, including to prevent importation, precluded adoption of an international exhaustion policy in the field of patents.

The argument that TRIPS precludes Members from adopting their own policies and rules on the subject of exhaustion is inconsistent with the terms of the Agreement, the practice of WTO Members, and the negotiating history of the Agreement.

Article 6 says that the rules of the Agreement may not be used to address the subject of exhaustion for purposes of WTO dispute settlement. This suggests that the rules of the Agreement may be used to address the subject in national court proceedings. It does not, however, say that Members are restricted in their choice of exhaustion policies, and these are very different matters.

Article 28, for example, grants patent holders the right to prevent third parties from importing patent protected goods without their consent. It does not, however, prescribe a rule as to how their consent will be determined. In Members that have adopted a rule of national exhaustion, consent only exhausts rights as to goods placed on the market within the territory of that Member. In Members that have adopted a rule of regional exhaustion, consent affects goods placed on the market in any Member within the regional group. In Members that have adopted a rule of international exhaustion, consent affects goods placed on the market anywhere in the world. TRIPS does not prescribe a rule regarding the geographic basis on which consent is determined, and clearly allows for international exhaustion.

<sup>238</sup> See Thomas Cottier, *The WTO System and the Exhaustion of Rights*, draft of November 6, 1998, for Conference on Exhaustion of Intellectual Property Rights and Parallel Importation in World Trade, Geneva, Nov. 6-7, 1998, Committee on International Trade Law, and Remarks of Thomas Cottier, in Second Report, and Remarks of Adrian Otten in Second Report, taking the position that Article 6 does not preclude application of the GATT 1994 or GATS to issues involving parallel importation.

<sup>239</sup> See Marco C.E.J. Bronckers, *The Exhaustion of Patent Rights under World Trade Organization Law*, 32 J. WORLD TR. L. 32 (1998) and Remarks of Marco Bronckers and Remarks of William Cornish, Second Report.

Footnote 6 to Article 28, TRIPS Agreement, provides: "This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6." This indicates that the right of importation granted to patent holders under Article 28 may not be used to address the subject matter of exhaustion in dispute settlement under TRIPS. In other words, no Member may be challenged in the WTO for adopting an international exhaustion rule based on the word "import" in Article 28.

At the time TRIPS was negotiated, GATT Contracting Parties applied different rules of exhaustion, often varying with the field of IPR protection.<sup>240</sup> There is no suggestion in the negotiating history of the TRIPS Agreement that Members reached agreement on uniform exhaustion rules at the time of its conclusion. Moreover, as noted later, since TRIPS entered into force, Members have continued to adopt and apply different exhaustion policies.<sup>241</sup>

If there was any doubt whether Article 6 prevents Members from adopting their own policies and rules on the subject of exhaustion of IPRs, this doubt was firmly eliminated by paragraph 5(d) of the Doha Declaration on the TRIPS Agreement and Public Health, which provides:

"(d) The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4."<sup>242</sup>

The express recognition that Members may establish their own exhaustion regime does not, however, resolve all interpretative issues under Article 6. The main question remaining "on the table" involves whether Members must limit their recognition of the basis for exhaustion to IPR protected goods or services placed on the market with the "consent" of the right holder.

IPRs generally confer on right holders the right to prevent others from taking acts in relation to the IPR, such as selling an IPR protected product. The rationale behind basing exhaustion on the consent of the right holder is that the right holder has voluntarily surrendered its right to prevent the undertaking of the relevant act. Once the right holder "consents", it may no longer "prevent". The concept of exhaustion of IPRs is that the right holder is not granted a perpetual or indefinite right of consent, but rather a limited right.

IPR holders may suggest that limiting or interfering with their right to consent is a violation of fundamental rights in property. Since exhaustion signals an end to control over the good or service protected by the IPR, to exhaust without consent is an impermissible taking of rights in property.

Governments do not, however, confer absolute rights in IPRs. All IPRs are subject to exceptions in the public interest. Some exceptions are potentially more intrusive than others.

One circumstance that is often suggested as a basis for exhaustion without the consent of the IPRs holder is compulsory licensing. TRIPS acknowledges that

<sup>240</sup> See discussion above, Section 2.1.

<sup>241</sup> See, e.g., discussion of the domestic legislation of various WTO Members, below, Section 6.1.

<sup>242</sup> See WT/MIN(01)/DEC/W/2 of 14 November 2001.

governments may grant compulsory licenses, and establishes controls on terms and processes involved in granting them. Some TRIPS experts take the view that the first sale or marketing of an IPR protected good exhausts the IPR in the same manner as consent to the first sale or marketing, and that WTO Members may adopt international exhaustion rules that recognize compulsory licensing as the basis for exhaustion. Other TRIPS experts take the view that consent of the IPR holder is the only acceptable basis for an international exhaustion policy. The latter view is largely rooted in the concept of territoriality. The suggestion is that IPR holders outside the Member that grants a compulsory license should not have their right to prevent a first sale (that is, their "property right") affected by that Member's decision. To allow one Member to make exhaustion decisions that affects other Members would place too much power in the hands of the first Member.<sup>243</sup>

Although allowing international exhaustion based on compulsory licensing does place power in the hands of the granting Member, since TRIPS permits each Member to determine its own policy and rules on the exhaustion issue, it is not clear why there is a threat to importing Members. They are not required to recognize compulsory licensing as the basis for exhaustion, but they may do so.

A liberal approach to international exhaustion would recognize the "lawful" or "legitimate" placing of IPR protected goods or services on the market anywhere in the world as exhausting the right of importation. As noted earlier, there are exceptions to IPR protection other than provided by compulsory licensing, such as those recognized under Article 30, TRIPS Agreement. Consider a product placed on the market in the European Community under a so-called prior user's exception to patent rights.<sup>244</sup> The prior user of the invention acts without the consent of the patent holder, but the goods placed on the market are treated for internal market purposes just as if the patent holder had authorized the marketing. Should WTO Members outside the EC be required to differentiate in their exhaustion policies as between goods first marketed by the patent holder and goods first marketed by the prior user?

The text of Article 6 does not provide a definitive answer to the scope that Members may give to their doctrine of exhaustion, and this may argue in favour of allowing recognition of compulsory licensing, for example, as a basis.

Although Article 6 provides that nothing in TRIPS should be used to address exhaustion of IPRs, it does not define "exhaustion". If a Member adopts an exhaustion policy or rules that another Member considers to extend the concept beyond reasonable limits, there would not appear to be a bar to challenging that interpretation in dispute settlement.

...subject to the provisions of Articles 3 and 4....

<sup>243</sup> As with other aspects of IPRs and exhaustion policy, the rules respecting compulsory licensing might differ depending on the form of protection.

<sup>244</sup> According to the prior user exception, a third person using the invention in good faith prior to the filing of the patent may continue the use of the invention in spite of the granting of the patent.

Article 6 is not without express limitations. The exhaustion policy and rules of Members is subject to Articles 3 and 4, TRIPS Agreement.<sup>245</sup>

Application of the TRIPS national treatment provision to exhaustion doctrine suggests that Members must treat foreign nationals on at least an equivalent basis as local nationals regarding protection of IPRs by exhaustion rules. From a right holder's perspective, this would suggest that a Member may not apply a doctrine of international exhaustion that allows importation as regards foreign IPRs holders, and apply a doctrine of national exhaustion that prevents importation as regards local IPRs holders. This would assure that foreign nationals do not face greater competition from lower priced products than local nationals.

Application of the TRIPS MFN principle to exhaustion doctrine suggests that Members must not apply different exhaustion rules to nationals of different Members. Thus, for example, if the United States applies a doctrine of international exhaustion to IPRs held by Chinese nationals, it must apply the same rule to IPRs held by nationals of the EC. On the assumption that the nationals of Members are most likely to hold the IPRs relating to goods produced in their countries of origin, as a practical matter this means that imports from China and imports from the EU should be subject to the same U.S. rules on exhaustion.

Regional exhaustion doctrines could be considered not consistent with the basic MFN principle in TRIPS because they accord a different status in practical effect to goods imported from countries within the region than to countries from outside the region. In this case, right holders within Members that are part of the region may suffer *vis-à-vis* right holders in Members outside the region. A right holder whose good is first placed on the market outside the region may be able to block import into a Member of the region (and control the distribution of its product), while a right holder within the region could not prevent an importation from another Member within the region. This raises the interesting question whether a national of an EC member state or another regional arrangement could succeed on a claim that it was subject to less protection of IPRs than a national residing outside the EC. The EC claims that Article 4(d) allows it to discriminate against IPR holders residing within the region by precluding them from preventing the intra-Community free movement of goods and services.

#### 4. WTO jurisprudence

None of the WTO Dispute Settlement Body, Appellate Body nor any panel has been asked to interpret Article 6. There are no dispute settlement decisions that discuss it.

However, as noted above, Ministers meeting in Doha adopted the Declaration on the TRIPS Agreement and Public Health that expressly addresses "the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property." Paragraph 5(d) of the Doha Declaration does not limit its reference to Article 6 precisely to account for arguments from some Members and industry groups that other Articles (such as Article 28) override it by implication.

<sup>245</sup> For a consideration of the purpose and effect of these Articles addressing national and MFN treatment, respectively, see Chapter 4.

## 5. Relationship with other international instruments

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Although there is some debate among legal experts as to precisely the character that should be ascribed to the Doha Declaration, there is no doubt that it will be taken into account by decision-making bodies in the context of dispute settlement. The Ministers clearly acted in Doha with a purpose, and there would be no reason to “recognize” an interpretation of the TRIPS Agreement if they did not intend this recognition to influence interpretation of the Agreement. The legal character of the Doha Declaration is discussed further in Chapters 6 and 33.<sup>246</sup>

## 5. Relationship with other international instruments

### 5.1 WTO Agreements

As discussed earlier, Article 6 specifically refers to settlement of disputes under the TRIPS Agreement. This leaves open the possibility that provisions of TRIPS relevant to the issue of exhaustion of rights will be applied in dispute settlement under other WTO Agreements.

As also mentioned, a claim might arise under the GATT 1994 that enforcement of IPRs to prevent importation of goods involves application of measures equivalent to quotas. If a Member permitted the adoption of a technical standard that incorporates IPR-protected subject matter, questions might arise regarding the extent to which the IPR-holder could control use or modification of the standard, implicating TRIPS rules relevant to exhaustion under the TBT Agreement. Since audio-visual services, as example, frequently incorporate IPR protected elements, it is certainly possible that a GATS dispute could implicate provisions of TRIPS relevant to exhaustion.

The relationship between TRIPS provisions relevant to exhaustion, including Article 6, and other WTO Agreements, remains to be determined in dispute settlement. There are different views among legal experts regarding whether Article 6 precludes exhaustion issues from being considered under other WTO Agreements. The “plain text” of Article 6 does not appear to preclude TRIPS rules relevant to exhaustion from being applied in dispute settlement under other agreements, but this does not exclude the possibility that TRIPS will be found to “occupy the field” of exhaustion subject matter as a special agreement governing trade and IPRs subject matter, or *lex specialis*.

### 5.2 Other international instruments

In December 1996 two new treaties with respect to intellectual property rights were adopted at WIPO: the Copyright Treaty (WCT) and the Performances and Phonograms Treaty (WPPT).<sup>247</sup> These two treaties include provisions with respect

<sup>246</sup> See Section 6.2 (International instruments) of both Chapters; see also F. Abbott, *The Doha Declaration on the TRIPS Agreement and Public Health: Lighting A Dark Corner at the WTO*, in: *Journal of International Economic Law* (2002), 469–505.

<sup>247</sup> World Intellectual Property Organization: Copyright Treaty [adopted in Geneva, Dec. 20, 1996], 36 I.L.M. 65 (1997) and World Intellectual Property Organization: Performances and Phonograms Treaty [adopted in Geneva, Dec. 20, 1996], 36 I.L.M. 76 (1997).

to the exhaustion of rights that, like Article 6,<sup>248</sup> reflect lack of agreement among governments on a unified approach to exhaustion of rights issues.<sup>249</sup> Several of the “agreed statements” to each of the WIPO Copyright Treaty and the WPPT address issues related to the issue of exhaustion, for example, by attempting to clarify distinctions between rights to redistribute physical copies of protected works and digital copies of such works.<sup>250</sup>

The WCT and WPPT are not incorporated in TRIPS, and their rules (including agreed statements) are not subject to WTO dispute settlement. At present, there are a limited number of state parties to these agreements. However, it is possible that in the future these agreements will have sufficiently wide adherence among WTO Members that a dispute settlement panel or the AB might look to them as evidence of state practice in interpreting related copyright provisions of TRIPS.

## 6. New developments

### 6.1 National laws

There have been a considerable number of national and regional court decisions on the subject of exhaustion of rights since the entry into force of TRIPS.

#### 6.1.1 Australia and New Zealand

Australia and New Zealand each adopted legislation permitting parallel importation of works protected by copyright. The legislation adopted by Australia distinguishes among different types of copyrighted works.<sup>251</sup> In June 2000, the

<sup>248</sup> Article 6 of the Copyright Treaty provides:

(1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.

(2) *Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.* [italics added]

Article 8 of the Performances and Phonograms Treaty provides:

(1) Performers shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their performances fixed in phonograms through sale or other transfer of ownership.

(2) *Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the fixed performance with the authorization of the performer.* [italics added]

<sup>249</sup> The Committee of Experts that prepared proposals for the treaties offered two alternative draft provisions: one that would have excluded international exhaustion, and one that would have permitted each treaty party to adopt an international exhaustion rule. See Chairman of the Committee of Experts, Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works to be Considered by the Diplomatic Conference, WIPO Doc. CRNR/DC/4, Aug. 30, 1996, at Article 8.

<sup>250</sup> For example, with respect to Article 6 of the Copyright Treaty as quoted above there was adopted an “Agreed statement concerning Articles 6 and 7”, providing: “As used in these Articles, the expressions ‘copies’ and ‘original and copies,’ being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects.”

<sup>251</sup> See Chris Creswell, *Recent Developments in Australia and New Zealand*, paper [furnished following Committee meeting of November 6–7, 1998]. See also, Abraham Van Melle, *Parallel*

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government of Australia announced, following the recommendation of its Intellectual Property and Competition Review Committee, that it would further liberalize its rule of international exhaustion in the field of copyright by eliminating a requirement that importers await the Australian copyright holder's release of the work on the local market.<sup>252</sup>

### 6.1.2 Japan

In 1997 in the *BBS* case,<sup>253</sup> the Japanese Supreme Court held that the right under the Japanese Patent Act of a patent holder in Japan to block importation of a patented product was exhausted when the product was first sold abroad, subject to the possible imposition of contractual restrictions to the contrary.

### 6.1.3 South Africa

The South Africa Medicines and Related Substances Control Amendment Act of 1997 included a provision permitting the Minister of Health to establish the conditions under which parallel importation of patented medicines would be authorized. Since South Africa recognized international exhaustion as to patents as a matter of its common law, and since there was no indication that the parliament intended to change this rule when it amended the Patent Act to implement TRIPS, it is unlikely that Section 15C of the Medicines Amendment Act made new law in South Africa, except to provide regulatory authority to the Health Minister. Nonetheless, this legislation regarding parallel importation provoked intense diplomatic protest from the United States and European Community, and a lawsuit by 39 pharmaceutical companies (which also addressed other provisions of the Medicines Amendments Act). The challenges to the Medicines Amendment Act were withdrawn in 2001.

### 6.1.4 Other developing countries

A recent WIPO report identifies developing countries with regard to whether their legislation (a) allows for compulsory licensing and (b) adopts national or international exhaustion in respect to IPRs.<sup>254</sup>

*Importing in New Zealand: Historical Origins, Recent Developments, and Future Directions*, [1999] EIPR 63.

<sup>252</sup> See Fourteenth Copyright Newsletter of the Intellectual Property Branch of the Attorney-General's Department, <[http://law.gov.au/copyright\\_enews](http://law.gov.au/copyright_enews)>, June 29, 2000:

"The Government announced on 27 June 2000 that it will amend the Copyright Act 1968 to allow for parallel importation of legitimately produced books, periodicals, printed music, and software products including computer-based games. When implemented, this decision will remove the legal impediment imposed by the Copyright Act on Australian importers obtaining these products and making them available to consumers as soon as they are released anywhere in the world. They will not be obliged to wait for the Australian copyright owners to release them in Australia."

<sup>253</sup> *BBS Kraftfahrzeugtechnik AG and BBS Japan, Inc. v. Rasimex Japan, Inc.*, Supreme Court Heisei 7 (o) No. 1988 (July 1, 1997), J. of S. Ct., No. 1198 (July 15, 1997).

<sup>254</sup> See Legislative Assistance provided by the World Intellectual Property Organization (WIPO) in relation to the Implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) and the Doha Declaration, at <<http://www.wipo.int/cfdiplaw/en/trips/index.htm>>, visited 8 April 2004.

### 6.1.5 Switzerland

A 1999 decision, *Kodak v. Jumbo-Markt*,<sup>255</sup> by the Swiss Federal Supreme Court specifically addressed the question whether Article 6 permitted each WTO Member to adopt its own exhaustion regime in the field of patents, and found that it did.<sup>256</sup> The Swiss Supreme Court decided in favour of national exhaustion (rather than international exhaustion) for patents in Switzerland (based on its interpretation of existing national legislation), although it has adopted a rule of international exhaustion for copyright and trademark.

In 1998 the Swiss Federal Supreme Court in the *Nintendo*<sup>257</sup> case extended Switzerland's rule of international exhaustion in the field of trademarks<sup>258</sup> to the field of copyrighted works. In the *Nintendo* case, a producer of video games holding parallel copyright protection in Switzerland and the United States sought to block the importation into Switzerland of games first placed on the market in the United States with its consent. The Swiss Federal Court found no basis for adopting a different approach with regard to copyright than it had adopted in respect to trademarks in the *Chanel* case (decided in 1996). It said that the holder of parallel copyrights made the decision upon which market to first place its work, and that it received its economic return from this first marketing.<sup>259</sup>

### 6.1.6 United States

The weight of expert opinion during the Uruguay Round and after was that the United States followed a doctrine of international exhaustion in the field of

<sup>255</sup> *Kodak SA v. Jumbo-Markt AG*, 4C.24/1999/rnd, December 7, 1999.

<sup>256</sup> In the *Kodak* case, the Swiss Supreme Court found:

"3 b) Pursuant to Article 28 of the TRIPs Agreement, the patent holder has inter alia the right to prevent third parties selling patented objects and importing such for this purpose. This provision with its protection of imports merely lays down that the import of products that infringe the patent must be prohibited, without itself laying down a prohibition on parallel imports. This follows not only from Article 6 of the TRIPs Agreement but is also clarified in a reference to Article 6 in a footnote to Article 28 of the Agreement (GATT Message 1, 1994 Federal Gazette IV, p. 301/2; cf. also Bollinger, *Die Regelung der Parallelimporte im Recht der WTO*, sic! 1998, p. 548; Alesch Staehelin, *Das TRIPs-Abkommen*, 2<sup>nd</sup> ed., Bern 1999, p. 57 et seq. and 148/9; Cottier & Stucki, loc. cit., p. 52; Cohen Jehoram, *International Exhaustion versus Importation Right: a Murky Area of Intellectual Property Law*, 1996 GRUR Int., p. 284). The claim expressed occasionally in the literature that the substantive protection of importation practically requires national exhaustion through the TRIPs Agreement is not, on the other hand, convincing (argued by Straus, *Bedeutung des TRIPs für das Patentrecht*, 1996 GRUR Int., p. 193/4); for the attempt to derive the exclusive application of national exhaustion from this agreement ignores and misinterprets the objectives of the agreement to establish the World Trade Organisation dated April 15, 1994, one element of which is the TRIPs Agreement, namely to eliminate all kinds of trade restrictions. On the contrary, TRIPs is intended to balance two sets of interests, namely the demand for the freedom of trade on the one hand and an increased protection of intellectual property rights on the other hand (Bronckers, *The Exhaustion of Patent Rights under WTO Law*, *Journal of World Trade* 1998, p. 144). Exhaustion, and hence the question of whether in particular parallel imports can be prohibited by the party entitled to the patent, is not, however, regulated by Article 28 of TRIPs, but expressly reserved to national law pursuant to Article 6 of the Agreement (cf. also Kunz-Hallstein, *Zur Frage der Parallelimporte im internationalen gewerblichen Rechtsschutz*, 1998 GRUR, p. 269/70)."

<sup>257</sup> *Imprafot AG v. Nintendo Co. et al.*, Swiss Federal Supreme Court, No. 4C.45/1998/zus, July 20, 1998.

<sup>258</sup> *Chanel SA, Geneva and Chanel SA, Glarus v. EPA SA*, BGE 122 II 469, Oct. 23, 1996.

<sup>259</sup> See Carl Baudenbacher, *Trademark Law and Parallel Imports in a Globalized World – Recent Developments in Europe with Special Regard to the Legal Situation in the United States*, 22 *Fordham Int'l L. J.* 645 (1999), at 688 [hereinafter Baudenbacher].

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patents. However, in late 2001, the Court of Appeals for the Federal Circuit (CAFC) rendered a decision, *Jazz Photo v. ITC*, (CAFC 2001) 264 F.3d 1094, that appears to overrule earlier precedent on this subject, and pending future developments before the Supreme Court, may be understood to reflect the current rule.

The case involved an appeal to the U.S. Court of Appeals for the Federal Circuit of a decision by the International Trade Commission in a Section 337 action initiated by Fuji Photo. Fuji sought to prevent importation of used disposable cameras in which third parties had replaced film. Some of those disposable cameras were first sold in the United States (and exported for film replacement), and some were first sold abroad. Fuji holds a number of patents on the disposable cameras in the United States and elsewhere.

The CAFC held that Fuji exhausted its patent rights concerning the disposable cameras when they were first sold, and it could not prevent third parties from refurbishing and reselling them. However, it went on to hold (in a brief conclusory statement) that exhaustion of the patent holder's rights only took place regarding products that had been first sold in the United States,<sup>260</sup> saying:

"Fuji states that some of the imported LFFP cameras originated and were sold only overseas, but are included in the refurbished importations by some of the respondents. The record supports this statement, which does not appear to be disputed. United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent. See *Boesch v. Graff*, 133 U.S. 697, 701-703, 33 L. Ed. 787, 10 S. Ct. 378 (1890) (a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States). Our decision applies only to LFFPs for which the United States patent right has been exhausted by first sale in the United States. Imported LFFPs of solely foreign provenance are not immunized from infringement of United States patents by the nature of their refurbishment." (264 F.3d 1094,1105)

The CAFC held that Fuji could not prevent importation of cameras that had first been sold in the United States, exported for repair, then re-imported. However, since U.S. patent rights as to cameras first sold outside the United States were not exhausted, importation of cameras first sold and repaired outside the United States could be blocked.<sup>261</sup>

<sup>260</sup> Much of the CAFC decision involves the question whether the actions by third parties constitute "repair" or "reconstruction" as a matter of U.S. patent law. Under existing doctrine, a patent holder may not prevent a third party from "repairing" a patented product that has been first sold, but may prevent the "reconstruction" of a product. Reconstruction is treated as the equivalent of "making" a new product, and therefore to be within the acts the patent holder may prevent.

The ITC decided that the acts performed by third parties constituted reconstruction, and that importation of the used and reconstructed disposable cameras should be generally prohibited. The CAFC disagreed with the ITC's legal analysis, holding that the acts performed by third parties constituted "repair", and therefore were permitted as to disposable cameras that had been first sold. That is, the rights of the patent holders to exercise control over repair of the cameras had been "exhausted" when they were first sold.

<sup>261</sup> This analysis by the CAFC may not adequately address pre-existing U.S. law on patents and parallel importation. As is well known among those familiar with U.S. case law on the question of exhaustion, the Supreme Court's decision in *Boesch v. Graff* in 1890 involved limited and different

## 6.2 International instruments

See discussion of WIPO treaties, Section 5.2, above.

## 6.3 Regional and bilateral contexts

### 6.3.1 Regional

In 1998 the European Free Trade Area (EFTA) Court decided the *Maglite* case.<sup>262</sup> In this case, the holder of parallel trademarks in Norway and the United States sought to block the importation into Norway (by an unrelated party) of a product initially placed on the U.S. market with the trademark holder's consent.<sup>263</sup> The EFTA Court recognized that European Economic Area (EEA) countries are generally bound to follow European Union jurisprudence regarding intellectual property, including the rule of intra-EEA exhaustion. The EFTA Court held, however, that since EFTA is a free trade area lacking a common external commercial policy, while the EU is a customs union adhering to a common external commercial policy, that each EFTA country is entitled to adopt its own rule with respect to the international exhaustion of trademark rights. Norway was thus entitled to follow its longstanding rule in favour of international exhaustion.

circumstances than those in the present case. In *Boesch*, the inventor of a lamp burner held parallel patents in Germany and the United States. Under German law, there was a "prior use" exception that allowed a third party to lawfully manufacture and sell a patented product in Germany. The goods (lamp burners) that were sold in Germany and sent to the United States were made and sold by a party other than the patent holder under the prior use exception. The U.S. patent holder had not placed the goods on the market in Germany, and had not exhausted its U.S. patent rights with respect to those goods.

Since *Boesch*, there have been several important Court of Appeals decisions holding that the United States follows a doctrine of international exhaustion of patent rights. Among the most important of these is the decision of the Court of Appeals for the Second Circuit in *Curtiss Aeroplane v. United Aircraft*, 266 F. 71 (2d. Cir. 1920). In that case, a holder of U.S. patents on aircraft components had licensed the British government to produce aircraft in Canada (for use in the First World War). After the war, the British government sold some of the aircraft it had produced to a third party that imported them into the United States for resale. The Second Circuit held that the U.S. patent holder, in consenting to the use of its patent for the manufacture of airplanes in Canada, had exhausted its right to control the importation of the resulting aircraft into the United States.

While there has been some conflicting case law at the district court level on the question of international exhaustion of patent rights, the most comprehensive analysis of the case law finds that the U.S. follows a doctrine of international exhaustion in respect to patents (see Margreth Barrett, above), that is, at least until *Jazz Photo*. In *Jazz Photo*, the CAFC states a principle which it derives from *Boesch v. Graff*, but that case has previously and properly been limited and distinguished by other Courts of Appeal. The CAFC fails to take note of this contrary pre-existing case law.

<sup>262</sup> *MAG Instrument Inc. v. California Trading Co. Norway, Ulsteen*, Case E-2/97, 1997 Rep. EFTA Ct. 127, [1998] 1 C.M.L.R. 331.

<sup>263</sup> According to Prof. Baudenbacher:

The plaintiff in the proceedings before the Fredrikstad City Court (Fredrikstad Byrett), Mag Instrument, Inc., was a U.S. company that produces and sells the so-called Maglite lights. In Norway, Viking International Products A/S, Oslo, was the authorized sole importer and sole distributor for those products. The trademark was registered in Norway in the plaintiff's name. The defendant, California Trading Company Norway, Ulsteen, had imported Maglite lights directly from the United States into Norway for sale in Norway, without the consent of the plaintiff. The plaintiff brought proceedings against the defendant before the national court, arguing that the imports infringed its exclusive trademark rights. (Baudenbacher, at 650)

In *Silhouette v. Hartlauer*,<sup>264</sup> decided in 1998, the European Court of Justice (ECJ) considered whether the First Trade Marks directive prescribed a uniform rule of intra-EC exhaustion in the field of trade marks. This case involved an action by an Austrian trademark holder to prevent the importation into Austria of goods that it had exported and sold to an unrelated purchaser in Bulgaria (outside the EEA). A third party sought to export the same goods from Bulgaria and resell them in Austria without the consent of the Austrian trademark holder. The ECJ interpreted Article 7(1) of the First Trade Marks Directive to mandate that member states of the EU (and EEA) follow a rule of intra-EU exhaustion of trademark rights, and that the Directive precluded the member states from adopting a rule of international exhaustion. Austria was therefore precluded by the Trade Marks Directive from continuing to follow its rule of international exhaustion in the field of trademarks.<sup>265</sup>

Since EC directives and regulations regarding IPRs adopted before and after conclusion of TRIPS generally include the same legal formula regarding intra-Community exhaustion of rights as is found in the First Trade Marks Directive, it is most likely that those directives and regulations will be determined to mandate that EC member states exclusively apply rules of regional exhaustion.<sup>266</sup>

### 6.3.2 Bilateral

Paragraph 5(d) of the Doha Declaration on the TRIPS Agreement and Public Health confirmed the right of WTO Members to adopt their own policies and rules on the subject of exhaustion of rights. However, since the adoption of the Declaration several countries have entered into bilateral “free trade” agreements that obligate them to prevent parallel importation of patented products, at least when the patent holder has included a territorial limitation on the distribution of the product by contract or “other means”.<sup>267</sup> As discussed in Chapter 2, TRIPS establishes minimum standards of IPR protection, but leaves Members discretion

<sup>264</sup> *Silhouette International Schmied Gesellschaft mbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, [1998] 2 C.M.L.R. 953. Advocate General Francis Jacobs recommended to the ECJ that it decide the First Trade Marks Directive required EEA member states to exclusively follow a rule of intra-Union exhaustion. The opinion of the Advocate General was critically analyzed in Frederick M. Abbott and D.W. Feer Verkade, *The Silhouette of a Trojan Horse: Reflections on the Advocate General Jacobs’ Opinion in Silhouette v. Hartlauer*, Bijblad bij De Industriële Eigendom 111, Apr. 16, 1998 and W. R. Cornish, *Trade Marks: Portcullis for the EEA?*, 20 EIPR 172, May 1998.

<sup>265</sup> In a follow on decision to Silhouette, the ECJ held that a trademark holder placing goods on the market outside the EC might by implication authorize parallel importation into the EC market (that is, relinquish its right to prevent importation), but that consent by implication must be unequivocally demonstrated. *Davidoff v. Levi Strauss and Tesco Stores v. Levi Strauss*, Joined Cases C-414/99 to C-416/99.

<sup>266</sup> See, e.g., the Copyright Directive, Biotechnology Directive, Rental Rights Directive, Database Directive.

<sup>267</sup> For example, the U.S.- Morocco FTA provides at Article 15.9: PATENTS

“15.9 (4) Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory [footnote 9][fn. 9 – A Party may limit application of this paragraph to cases where the patent owner has placed restrictions on import by contract or other means.]”

See also, a comparable provision in the U.S.-Australia FTA, at Article 17.9(4).

to adopt higher standards. TRIPS does not preclude Members from agreeing to relinquish rights to permit parallel importation. Yet, it seems inconsistent with the spirit of the Doha Declaration that Members that have agreed on the multilateral level to national autonomy in the determination of exhaustion policy would have been asked to relinquish that autonomy as part of a package of bilateral trade concessions.

#### 6.4 Proposals for review

The adoption of the Doha Declaration on the TRIPS Agreement and Public Health resolved the question whether WTO Members are permitted to adopt their own regimes regarding exhaustion of rights (see above, Section 3). There are no present proposals to reopen this issue.

However, the relationship between rules on exhaustion of patent rights and proposals to facilitate price discrimination in favour of developing countries to address public health needs has resulted in renewed discussion concerning the extent to which restrictions on parallel trade may be desirable in certain contexts. These issues are being considered in the context of continuing negotiations regarding implementation of paragraph 6 of the Doha Declaration.

### 7. Comments, including economic and social implications

There is considerable debate regarding the economic and social implications of different exhaustion of rights regimes.<sup>268</sup> It is important to acknowledge at the outset that the same conclusions may not apply to all forms of IPRs, or for that matter to different goods and services protected by these different forms. There may or may not be a single optimum exhaustion rule. With that said, there are a few general observations that can be made.

First, rules of exhaustion are designed to foster competition among producers, and to benefit consumers. Exhaustion of IPRs limits the legal capacity of producers to control the movement of goods and services after the first sale or lawful placing on the market, and reduces the potential for trade-restrictive (including anti-competitive) behaviours. As a “first principle”, it is to the consumer’s advantage that exhaustion of rights is accepted.

In the international setting, there are two main arguments made by proponents of limiting exhaustion and parallel importation. The first is that by allowing IPR holders to segregate markets and charge different prices, producers can achieve higher rates of return on their investments in intellectual property. This will permit producers to reinvest greater amounts in the creation of new and better goods and services, which is to the benefit of consumers.

<sup>268</sup> See, e.g., Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation*, 1 J. Int'l Econ. L. 607 (1998); Keith Maskus, *Parallel Imports in Pharmaceuticals: Implications for Competition and Prices in Developing Countries*, Final Report to the World Intellectual Property Organization, draft of April 2001; Commission on Macroeconomics and Health, CMH Working Paper Series, Paper No. WG4:1 – Scherer, F.M. and Watal, Jayashree, *Post-TRIPS Options for Access to Patented Medicines in Developing Countries*, June 2001.

Similar arguments are often made to promote higher levels of IPR protection generally, and there is good reason to be sceptical about the need for higher levels of protection and increasing returns to IPR-holders at a cost to the public of higher prices.

A second argument is that parallel imports hurt developing country interests because, if goods placed on the market in developing countries can freely flow to developed countries, producers will refrain from charging lower prices in developing countries.

It is curious that some developed countries that are the most aggressive promoters of liberal trade – which is about maintaining free movement of goods and services, competitive markets and operation of comparative advantage – favour market segregation and differential pricing when it comes to IPRs and parallel trade. It is difficult to reconcile the view that open markets benefit developing countries by allowing them access to developed markets for their low-production cost products, and the view that low-priced goods must remain in developing countries. If it is correct that price discrimination as a general proposition favours developing countries, this might imply that liberal trade rules are not the most beneficial for them.

As a general proposition, international exhaustion of IPRs may be the principle most consistent with fostering competition, specialization and global economic welfare (assuming that economists would not advocate a rethinking of the foundations of the WTO system). Yet does this mean that price discrimination will never benefit developing countries? Probably not. There are circumstances in which it may be desirable to limit inter-country price competition to promote the interests of consumers in developing countries, such as when the prospects for developing countries to establish their own globally competitive sources of supply are limited.<sup>269</sup> There may not be many such cases, and even those cases may result from IPR protection granted to developed country technologies. The point is, however, that there may be exceptional cases in which the advantages of an international exhaustion regime would be outweighed by competing developing country consumer interests. In such cases it may be possible to grant an exception to the otherwise applicable rules, rather than opting for a closed exhaustion regime that on the whole disadvantages developing countries.

The argument by some developed countries that rules allowing parallel trade harm developing country interests because such rules inhibit the sale of lower priced goods in many cases proceeds from a false factual premise. Perhaps paradoxically, goods and services are often sold in developing countries at prices higher than in developed countries, and developing country consumers will benefit from importing from the developed countries.

<sup>269</sup> For example, the Commission on Intellectual Property Rights established by the British government recommended that supply of patented pharmaceuticals to developing countries at lower differential prices might be facilitated if developed countries prevented parallel importation of those medicines. The Commission, however, recommended that developing countries continue to allow parallel importation of patented medicines to assure the lowest cost source of supply. IPR Commission, at Chpt. 2.

## 6: Objectives and Principles

### Article 7 Objectives

The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

### Article 8 Principles

1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.
2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

### 1. Introduction: terminology, definition and scope

An article of a treaty establishes rights and obligations for the parties. A general principle of treaty interpretation is that terms are presumed not to be surplus. Words are in a treaty for a reason and should be given their ordinary meaning in its context.<sup>270</sup> When the negotiators of the TRIPS Agreement

<sup>270</sup> See, e.g., the decision of the WTO Appellate Body in *United States – Standards for Reformulated and Conventional Gasoline*, WT/DS2/9 20 May 1996, in which the AB said:

“Applying the basic principle of interpretation that the words of a treaty, like the *General Agreement*, are to be given their ordinary meaning, in their context and in the light of the treaty’s object and purpose, the Appellate Body observes that the Panel Report failed to take adequate account of the words actually used by Article XX in its several paragraphs.” *Id.*, at page 18.

decided to include specific articles on “Objectives” and “Principles” in the agreement, they presumably did so with the goal of establishing rights and/or obligations.

Articles 7 and 8 have been invoked by Members to support rather different views of the purposes of TRIPS. The articles reflect the tensions inherent in the negotiations. Developing country Members have expressed considerable concern that only one side of the Agreement’s objectives are pursued by developed Members, these being the objectives relating to the protection of technology “assets”, while the stated objectives “that the protection and enforcement of intellectual property rights should contribute to the promotion” of transferring technology and actively promoting developmental interests are relegated to a secondary, and perhaps even illusory, status.

On 14 November 2001, WTO Members meeting in Doha adopted a Ministerial Declaration on the TRIPS Agreement and Public Health that bears directly on Articles 7 and 8. The implications of this Declaration for these provisions is described and analysed in Section 6.2.1, below.

## 2. History of the provision

### 2.1 Situation pre-TRIPS

Articles 7 and 8 of TRIPS establish the objectives and principles of this particular Agreement. Since TRIPS brought the regulation of intellectual property rights into the GATT, and now WTO, multilateral trading system for the first time,<sup>271</sup> there is no pre-TRIPS situation in respect to the objectives and principles of the Agreement. In other words, the objectives and principles of the TRIPS are unique to the Agreement.

The pre-TRIPS Agreement situation with respect to international governance of IPRs involved treaties administered by WIPO and other institutions. Even with respect to more detailed treaties like the Berne Convention, the pre-TRIPS international situation largely left discretion to regulate IPRs in the hands of each state, taking into account the domestic regulatory interests of the state. TRIPS represented a dramatic shift in that situation, taking away a great deal of internal regulatory discretion, and potentially shifting the pre-existing balance of internal interests. In light of this rather dramatic shift, the elaboration of objectives and principles in Articles 7 and 8 may well be viewed as a means to establish a balancing of interests at the multilateral level to substitute for the balancing traditionally undertaken at the national level.

Neither the Paris nor Berne Convention included provisions analogous to Articles 7 and 8. That is, there are no provisions that act to establish an overarching set of principles regarding the interpretation and implementation of the agreement.

<sup>271</sup> As noted elsewhere in this book, there were a few provisions in the GATT 1947 that concerned unfair competition, and Article XX(d) provided an exception for measures taken to protect IP. There was, however, no attempt in the agreement to establish substantive IPRs standards.