Pierce–Tsinghua Intellectual Property Summer Institute 2009

World Trade and World Intellectual Property Law and Institutions

Course Materials
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World Trade and World IP Law and Institutions
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CLASS 1: The Political Economy of International Trade

WHY COUNTRIES TRADE*

Transnational trade ("trade") is the exchange of goods and services among countries. Countries tend to specialize in the production and export of those goods and services that they can produce relatively cheaply and to import things that are produced more efficiently elsewhere.

Transnational trade enables countries to use their labor, capital, and other resources in the most productive way possible. In this way they can enjoy a larger quantity and variety of goods than if they did not trade with each other. The classical model of economics, however, holds that to realize the greatest possible gains from international specialization and trade. Industries must be competitive, workers must be able to enter or leave occupations without difficulty, and government policies must encourage efficiency and promote competition.

The tendency of countries to specialize in the production and export of things that they can produce best and relatively cheaply is called by economists the principle of **comparative advantage**. This concept is simple if we observe that it is less efficient for Norway to grow bananas than for it to pump petroleum. It is sometimes difficult, however, to explain why countries specialize in some products and not in others. The major reasons involve differences in factor endowments and in technology. (see explanation of comparative advantage below.)

Factor Endowments

A country's factor endowments include its stocks of **physical capital**, **human capital** (workers), and **natural resources**. Physical capital consists of machinery, factories, highways, railways, harbors, and other equipment and facilities used in production. Human capital represents investment in the labor and management force through education, on-the-job training, and work experience. To understand what determines the kinds of products that a nation exports or imports, a first step is to compare its factor endowments with those elsewhere. Great Britain, Korea and Japan, for example, although highly industrialized, are deficient in certain agricultural products and raw materials. They sell manufactured goods and machinery abroad in order to pay for the needed factor endowments. As physical capital factors become

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more undifferentiated, human factors become more important. Chief among these is a grasp of technology.

Technology

Technology refers to the methods of producing goods and services that determine efficiency in production. New technology, for instance, is most readily available in the advanced industrialized countries. These countries also have highly trained scientific personnel and workers with considerable production skill and experience. Moreover, the markets for products in these countries are very large, and income levels are substantial. All these advantages encourage larger firms to expand their operations and to seek the economies of mass production (also called **economies of scale**), enabling them to compete with foreign producers who lack such advantages. Comparison of the technological characteristics of nations' major producing sectors, therefore, will aid in understanding differences among them in exports and imports. Many less developed countries, for example, rich in natural resource endowments, need to import manufactured goods. Many newly industrialized countries ("**NICs**") rich (although newly rich) in high-volume manufacturing capability, merely copy technology created or invented and developed in more advanced countries, and so are doomed to a perpetual game of importing foreign inventions or new products. Physical factors are of diminishing importance in a world increasingly transformed not by steel, plastics, or automobiles, mass produced in increasingly efficient volume, but by telecommunications, biotechnology, and nanotechnology, for which human factors increasingly add value, and for which sources of financial capital investment and markets are global in dimension.

PROTECTIONISM AND "FREE" TRADE

Protectionism refers to the theory and practice of insulating a nation's firms or workers from foreign competition. In contrast, **free trade** refers to the theory and practice of allowing open market access to foreign industry. Protectionism can be implemented through taxes on imports (**tariff barriers**), quantitative limits (**quotas**), or other devices that discriminate against foreign products. Trade protection can generate tax revenue, increase national economic self-sufficiency, offset competitive advantages of foreign producers, such as lower wages, and enhance the well-being of labor and management in protected industries. With these benefits, however, come higher consumer prices and, in most instances, lower **welfare** (standard of living) for the nation as a whole, because inefficient domestic industries are favored and gains to consumers from transnational trade are reduced. In addition to factor endowments and technology, government policies play an important role in shaping the structure of a country's trade. This is perhaps

most obvious in the case of tariffs and import quotas (mentioned above), but is also true for other nontariff barriers (**NTBs**) to trade as well. The government may also encourage exporters by subsidizing them. **Subsidies** can be direct, as when the government makes up the difference between lower foreign and higher domestic prices, or indirect, as when the government supports research and development activities by private firms. One reason why governments adopt such policies is to shield domestic producers from foreign competition. Other reasons why governments introduce policies that interfere with free trade markets are:

> [1] to increase the wages of certain groups of workers and their share of the national income;
> [2] to bring monopoly power to bear in trade with other countries;
> [3] to offset difficulties in domestic markets, particularly those in which workers are unemployed;
> [4] to increase national self-sufficiency in time of war or other emergency; and
> [5] to protect young industries until they can mature.

Protectionist policies have also been invoked in the face of **dumping** policies of other countries. Dumping occurs when a product is sold abroad at less than its domestic cost in order to take over a market or to eliminate a glut in the home market caused by efficiencies of scale. In order to counteract foreign competition, states may impose special customs duties on subsidized or dumped goods called **countervailing duties** or **anti-dumping duties**. Economists have argued that restriction of trade may not be the best means to achieve the objectives sought. This is because policies affecting trade in such a way may have unintended side effects. First, consumers may be made worse off by having to pay higher prices for imports. Second, by protecting inefficient industries the policies may discourage a more productive use of a country's factor endowments. Protected industries owned by politically well-placed local elites may sit on their unearned preferential treatment and bilk their own people instead of passing benefits on to consumers. Third, the restriction of imports may injure the economies of other countries by reducing their exports, especially countries that are relatively poor and less developed. As other countries then begin to experience unemployment and diminished incomes, they become increasingly unable to import goods -- a situation that may have a deleterious effect on the protectionist country. Fourth, restrictions on the import of needed machinery or technological know-how may also diminish the competitiveness of the restricting country's goods in the export market. Most countries nevertheless maintain varied protectionist policies.

HISTORY OF TRANSNATIONAL TRADE - ETHNIC EMPIRES

African, Arabian, and Asian caravans and Mediterranean and Indian Ocean maritime trade are well-known examples of early far-flung commercial transportation. World trade has been dominated at various times by Egyptians, Phoenicians, Greeks, Chinese, Venetians, Turks, Spanish, Dutch, British, and – until most recently -- Americans. The Crusades gave an impetus to European trade, and voyages of exploration and discovery later expanded trade beyond the Mediterranean basin. The "Hanseatic League", an association (Hansa) of medieval north German cities formed to advance their common commercial interests, was an early trading bloc. The league developed from numerous smaller associations and was gradually formed between about 1250 to 1500. It declined thereafter but was never formally disbanded. The league was loosely organized in regional groups; its only central structure was the general diet that met regularly after 1356. The increasing political supremacy of the national states enabled them to supplant the commercial power of city trading blocs. When stronger states, especially England and the Netherlands, developed in northern Europe in the late Middle Ages, they curtailed Hanseatic rights and generated severe competition. Such trade could be truly deemed "transnational" for the first time. Chinese merchant fleets were very active under the leadership of Admiral Zheng He (1371-1433), a member of a Muslim minority ethnic group from Yunnan province, during the reigns of the early emperors of the Ming dynasty in the Indian Ocean. However, subsequent Ming emperors prohibited Chinese merchants from ocean-going trade to reduce their political power and independence. China and Japan remained inward-looking from the early 16th until the late 19th centuries. It was during that period that the major European nations (including Britain, Portugal, the Netherlands, France, and Spain) conducted trade with their colonies, under principles of **mercantilism**, an extreme form of economic protectionism. Mercantilism was an economic policy first prevalent in the commercial age preceding the Industrial Revolution. European governments in the 16th, 17th, and 18th centuries practiced mercantilism in an effort to build up their military and industrial strength. Jean Baptiste Colbert (1619-1683) Secretary of State under Louis XIV, directed virtually all of France's internal affairs from 1661 to 1683. He was best known for **Colbertism** (another name for mercantilism), a thorough application of government controls over the economy. Colbert's mercantilist policies included

- governmental subsidization and inspection of industries;
- guild (political monopoly) control of luxury and other manufacturing;
- establishment of new East and West Indies companies;
- reduction of tariffs internally and an increase in tariffs against Dutch competitors; and
- more equitable and efficient tax administration.

State intervention was an important part of early European mercantilism. Governments encouraged domestic industry, regulated production, controlled trading companies, placed restrictions such as tariffs and quotas on the importation of merchandise from other countries, and sought out raw materials and markets through colonialism. State intervention still remains important to theorists who support the idea that a country should have an **industrial policy** (as opposed to so-called **economic liberalism**).

Mercantilists believe that a country's exports are the measure of its economic strength and that economic success could be judged by the influx of gold, silver, and other precious metals from abroad. Gold and silver could be used to purchase military supplies, which provided a further reason for acquiring them. Armaments and armies to one colonial power were necessary to fend off the incursions of other colonial powers. The influx of gold and silver from Latin America to Europe and from Europe to Asia in the 16th and 17th centuries vastly increased the volume of transnational trade in goods. Gold and silver extracted from Latin America, circulated in Europe, were used by Europeans states to build armies and weapons and to purchase luxury goods from the Orient. The growth of the world economy eventually outpaced the world's production of gold; but the **gold standard** was officially not abandoned until the 1970's, replaced by fluctuating national currencies.

THE COLONIAL ECONOMIC SYSTEM

A basic principle of mercantilism was that colonies of one imperial power were forbidden to trade not only with other colonial powers or their colonies, but with one another--except through the colonial power or "mother country" -- referred to as the "metropolitan". Colonial dependencies were valuable for the raw materials they supplied for the manufacture of finished goods in the "mother country", and as markets for those same finished goods. Colonial dependencies were discouraged--if not prohibited--from manufacturing or trading in finished goods themselves. Great Britain followed mercantilist policies embodied in the **Navigation Acts** of the 17th century and intended to expand British shipping and exports at the expense of Dutch preeminence in transnational trade. The British act of 1651 required all products of America, Asia, and Africa to be imported into England and its possessions in ships manned predominantly by English subjects; European produce could be imported into England only in English ships or those of the country of origin. The Navigation Act of 1660 prohibited all foreign ships from trade between England and its colonies and restricted that trade to English-built and English-owned vessels with an English captain and a crew that was 75 percent English. It also enumerated certain commodities (such as sugar, tobacco, and dyes) that the colonies could export

only to England or to another British colony. The Staple Act of 1663 forbade the shipping of European goods to the colonies except through England or Wales, and additional acts in 1673 and 1696 tried to plug various loopholes and provide stricter enforcement.

Originally aimed at excluding the Dutch from the profits of English trade and often passed as much at the instigation of English merchants as from deliberate government policy, the Navigation Acts incorporated one of the basic mercantilist assumptions: that colonies existed for the economic benefit of the parent country. The British Navigation Acts eventually aroused much hostility in the American colonies, where they were a target of the agitation leading to the American Revolutionary War.

Another basic mercantilist assumption was that the volume of trade was limited (or even fixed) and that countries could expand their trade only at the expense of others. The notion was assailed by the Physiocrats, by Adam Smith in his *Wealth of Nations* (1776), and by other classical economists in the 19th century.

PRESSURES ON MERCANTILISM

The **Physiocrats** were an 18th-century group of French economists. Their leading member, Francois Quesnay (1694-1774), believed land was the source of all wealth and that agriculture alone produced a clear surplus over the costs of production. All other activities, including manufacturing, trade, and commerce, were thought to be sterile, yielding no excess over the quantity of raw materials received. Quesnay's major work, the *Tableau economique* (1758), is the first known schematic portrayal of the workings of the entire economy. The Physiocrats reacted against mercantilism, which emphasized manufacturing and burdened the French economy with massive restrictions on trade. They argued that supply and demand should prevail over government regulation and that a single tax on land should replace the multiplicity of existing taxes. Attempts by the Physiocrats to reform the French economy were unsuccessful. However, the tensions between merchants who favor free trade and farmers who oppose it are still as electric today as it was more than two centuries ago. Since the time of **Adam Smith** (1723-1790), a part of the "moral philosophy" on which democratic market societies are premised is that the "fair price" is the competitive price: the price that would prevail in the absence of inordinate bargaining power by either of the parties to the exchange transaction. The rise of democracy and the rise of internal economic competition unmanaged by state regulation went hand in hand. The triumph of Smith's free trade and **laissez-faire** ideas in the early 19th century led to the demise of mercantilist policies for a time. “Laissez-faire” (French, "leave alone") in economics is the doctrine that the best economic policy is to let businesses make their own decisions without government interference. Laissez-faire principles were strongest in the mid-

19th century Industrial Revolution, which transformed the theory and practice of transnational commerce. As mercantile principles gave way to laissez-faire policies and an emphasis on free trade, mass production, technological advances in communication and transportation, and new, large business organizations (such as commercial banking and insurance corporations) extended world trade and stimulated the search for new markets -- a search that in many instances resulted in national policies of colonialism and imperialism.

"Free trade" refers to commerce that is *relatively* unrestricted and unaided by government regulations, such as tariffs, quotas, and subsidies. In an extension of laissez-faire principles to transnational trade, "free trade" enthusiasts asserted that nations should specialize in producing and exporting goods that they were most efficient at manufacturing and import goods that they were less efficient in producing. All nations would benefit by this "economic law of **comparative advantag**e" if there were no barriers to the exchange of goods.

David Ricardo (1772-1823) was a leader of the British classical school of economists. He systematized the economic theory of his day and strongly influenced its subsequent development. Like Adam Smith before him, Ricardo believed in limiting state intervention in economic life. His early publication *An Essay on the Influence of a Low Price of Corn on the Profits of Stock* (1815) argued against high tariffs on grain imports, and his theory of **comparative advantage** showed how the unimpeded flow of commodities among nations could be of mutual benefit to all parties in reaction to mercantilism and imperial expansion.

The practice of free trade received its initial impetus in Great Britain with the repeal (1846) of the "corn laws" (grain laws) and the subsequent sweeping tariff reductions under William Gladstone. The Corn Laws were regulations restricting the import and export of grain, especially wheat. The general purpose of such laws, which dated from the 12th century, was to ensure a stable supply of domestic grain and, later, to protect the British agricultural producers who dominated Parliament. In 1815 a law was passed that allowed the import of foreign grain only after domestic wheat had reached the price of 80 shillings. This resulted in high bread prices at a time of considerable economic and social disruption following the Napoleonic Wars. In the 21st Century, protection of agricultural commodities (often in the name of **"food security**") is still a large source of friction between trading nations, and countries which seek food security and reward to local farmers for production of agricultural products such as rice (Korea and Japan) or sugar beets (the United States) by limiting imports and subsidizing local producers are engaged in a similar form of protectionism.

In order to promote free trade among the fragmented German states prior to German unification in 1870, the **ZOLLVEREIN**, or customs union, had already been formed (1834). The Anglo-French Treaty of 1860 and later

free trade treaties introduced the concept of “most-favored nation” status, which greatly expanded transnational trade. The opening of China after its defeat by Britain in the Opium Wars (1838-42; 1856-60) and of Japan by the “black ships” of U.S. Commodore Matthew Perry in 1853 [during the administration of President Franklin Pierce] the practice of free-trade was brought to east Asia by military force. (This was often called "gunboat diplomacy.")

In order to preserve its economic interests in China, the United States advanced the "Open Door Policy", under the principle that equal trading rights in China should be guaranteed to all foreign nationals. Imperial China was forced to award trading concessions to the major powers including Great Britain, France, Germany, Italy, Russia, Japan, and the United States. During the succeeding decades the European powers and Japan engaged in efforts to partition China into separate and exclusive spheres of influence. Fearing that the United States was being frozen out of the China trade, Secretary of State John M. Hay set out the Open Door Policy in two notes to the other powers. In the first note (1899) one of his points was that the Chinese tariff was to be the same for all traders; and any country possessing a territorial sphere of influence in China was to treat foreign merchants and industrialists the same as it did its own. Britain was for a long time during the 19th century the primary trading nation to actively embrace the cause of “free trade.” “Developing nations”, however (including the United States) tended to favor high-tariff policies to protect young industries from foreign competition from the big European powers. In the United States, protectionism in the form of tariff restrictions was the prevailing trade doctrine from the beginning of nationhood. Over the years Congress imposed ever higher tariffs, until the Smoot-Hawley **Tariff Act of 1930** set tariff rates averaging 60 percent. The Smoot-Hawley Tariff Act of 1930 is still the basic trade law of the United States.

The first half of the 20th century was a time of great disruption of world trade caused by World War I, the Depression of the 1930s, and World War II. International politics (including the question of peace and war) and transnational trade were inextricably linked -- just as they had been in the battles between the British and the French in the 18th and early 19th century. In the 1930s in particular, the marked decline in national income and employment and the protectionist policies introduced in many countries were factors in the collapse of transnational trade. Germany, a leading trader in the world economy prior to World War I, was forced by the Treaty of Versailles (1919) to pay reparations to the victorious powers at the same time it was prohibited from selling its manufactures abroad to earn enough to pay those same reparations. Social instability and rampant hyperinflation in the German Weimar Republic (1919-1933) caused by these unrealistic demands led to its downfall in 1933 and the rise of Nazism. The legacy of protectionism is not a pleasant historical lesson to ponder.

FROM LAISSEZ-FAIRE TRANSNATIONAL TRADE TO INTERNATIONAL ECONOMIC REGULATION

Reflecting on the causes of such social chaos and in an effort to ameliorate the Great Depression of the 1930s, the administration of U.S. President Franklin D. Roosevelt inaugurated (in 1934) a trade-expansion policy, negotiating mutually advantageous tariff-reduction agreements with other countries. After World War II, the United States led in the establishment in 1948 of the **General Agreement on Tariffs and Trade (GATT)**, aimed at limiting and regulating import barriers. Successive negotiations under GATT auspices reduced U.S. tariffs to less than one-tenth of the Smoot-Hawley level. International trade expanded enormously, contributing to unparalleled Western prosperity. An increased desire for free trade was reflected in the Bretton Woods Conference (held in New Hampshire in 1944) and subsequent international organizations like the European Free Trade Association (EFTA) and the European Communities (EC). The United States, with everything to gain from an undamaged industrial sector and over one-half of the world's GNP in 1947, assumed the mantle of free trade which had been shouldered by the British earlier. In the 1960s and '70s, continued U.S. attempts to promote freer trade were opposed by highly protectionist (some would say mercantilist) economies such as Japan, as well as by developing countries that called for preferential access to markets of advanced industrialized nations. Protectionism strengthened in the United States as well in the early 1980s. The recent expansion of international trade has increased pressures for protection of U.S. companies and workers whose products (textiles, steel, copper, automobiles, consumer electronics) face particularly intense foreign competition. Their situation was made worse when, as occurred in 1982-85 [and 1999-2005], the dollar was highly valued in international exchange markets, since a strong dollar makes imports cheaper. Recessions also increase protectionist pressures, as foreign trade is blamed for general economic difficulties. Deregulation of international trade has been parallelled by increasing state intervention and coordination of monetary policies between major market economies (plus Russia), which meet annually as the **Group of Eight (G-8)**: Canada, France, Germany, Japan, Italy, Russia, U.K., and U.S. Attempts by the G-8 countries to bring Brazil, China, and India into international coordination are ongoing. Due to huge bilateral trade deficits with China, the United States has put tremendous pressure on China to revalue its currency, the Renminbi. However, because of China's heavy reliance on the value of exports in its overall economy (80 percent of China's production in 2005 was export based), national policy-makers in China are resistant to revaluing its currency.

WORLD TRADE PATTERNS

Nevertheless, while protectionism in the form of tariffs remains out of favor as a publicly embraced general doctrine in major industrial countries. virtually all states quietly practice protectionism at home and hope that other countries will keep their markets open under a multilateral liberal trading regime. Even Japan, which imposed very high tariffs through most of the postwar period, has now reduced them to quite low levels, and a number of less-developed countries, such as Mexico, have curtailed trade protection as well. In developed countries, selective protection continues through a variety of means. Government procurement can favor products made at home: the Japanese government, for example, as a rule until recently purchased satellites and supercomputers from domestic suppliers. Product **standards**, ostensibly designed for health and safety purposes, can keep imports out. Such obstacles, when unreasonable from a "cost-benefit" standpoint, are called non-tariff barriers (NTBs). Excessive government regulations and approval processes have also been asserted to be NTBs. Also, a nation can press another to restrict its exports--as the United States has done with non-European countries on textiles and apparel--through so-called "orderly marketing agreements" (**OMAs**) such as the **Multi-Fiber Agreement (MFA)** that enforce quota limits. [The MFA expired at the beginning of 2005, and now there are no longer quotas on textiles.] Such agreements are supposed responses to "market failure" --that is, a failure by the market to act as it would in a "pure" state or the failure of market institutions to sustain "desirable activities." "Market failures" are sometimes called "**externalities**" by economists, since they do not fit or factor into the economists' theoretical calculations. In the jargon of economics, examples of "market failure" include imperfect competition, excessive competition ("price wars"), anticompetitive conduct, imperfect information, side effects, public goods, and income maldistribution. Market failures affect economic predictions but may be unforeseen in economic models (by those making the predictions, at least!). Some types of "market failure" may occur when a policy adopted for long-term reasons leads to short-term dislocations that may place those very long-term policy interests in jeopardy. For example, elimination of border checks enacted to increase economic efficiency may lead to trafficking of illegal drugs and and counterfeit/pirated goods across the same border. Reduced tariffs and resultingly cheap imported goods beneficial to the consumers who flock to "shopping malls" may be offset by unemployment in a manufacturing sector, which threatens the working class. Consumers are often antagonists of labor groups in transnational trade disputes. Consumers, whose interests favor free trade, have the political clout to win more often than not in the United States -- unlike the situation in a number of other countries. For example, in countries such as Japan, and Korea, the interests of consumers (as a discrete interest group) have tended

to be of negligible importance in how the government establishes its trade policies, while the interests of producers have been paramount.

Recession, fluctuating prices for oil and other commodities, debt repayment problems in less-developed countries, and the strength or weakness of the U.S. dollar as the world's **"reserve currency"** have been important factors affecting trade patterns. The trade of the United States was concentrated in manufactured goods, which, in the late 1980s, constituted approximately 75% of total U.S. exports and imports. Food and raw material constituted about 15% of total exports. Primary commodities and petroleum were about 20% of total U.S. imports. The United States is now a net importer of manufactured goods. Of these, imports of automobiles and petroleum products are most significant and have had the greatest impact on the U.S. economy.

In the late 1980s the United States, Canada, Western Europe, and Japan accounted for more than two-thirds of total world exports. That these industrialized countries (accounting for less than one-fifth of the world's population) were one another's best customers is evident from the fact that 78% of their total exports were sold to each other in 1988. The less-developed countries, which export mainly primary commodities, accounted for 20% of total world exports, although they account for over three-fourths of the world's population. More than two-thirds of their exports went to industrialized countries, but that only accounted for about 20% of industrialized country imports. Exports from the former Eastern-bloc countries were less than 10% of the world total. These countries took less than 4% of the total of industrialized-country exports and 7% of the total exports of the less-developed countries. More than half of the former Eastern-bloc countries' exports went to each other. Most of the rest of their exports went to the developed countries.

Shifts in comparative advantage -- in labor-force proficiency, for example, or access to needed raw materials --constantly change competitive positions in international markets. The loss of a large portion of the U.S. automobile market to Japanese products is a notable case of a shift in comparative advantage. (There have been complaints against the Japanese, alleging that their government unfairly restricts imports and promotes exports of manufactured products.) Other U.S. industries, such as clothing, shoes, iron and steel, appliances, and semiconductors have also experienced competitive pressures from imports. Shifts in comparative advantage were reinforced by the strong dollar between 1980 and 1985, which encouraged imports into the United States and made U.S. exports more costly to foreign buyers. A tacit agreement known as the "Plaza Accords" was entered into between the United States, Japan, and Germany in the mid-1980's, under which the value of the U.S. dollar against the Japanese yen and German mark would gradually fall. That gradual fall continued through the mid-1990s. During the 1980s, the United States took steps to limit the quantities

of its imports of several manufactured goods by means of "voluntary export restraint" (VER) agreements (also called VRAs) negotiated with foreign exporters. A VER works much like an import quota in terms of its protectionist impact, but foreign exporters may capture the often substantial price differential between the export price and the higher price paid in the importing country since supply decreases but demand remains strong.

From the 1980s the United States experienced very large trade deficits. While these deficits have been somewhat reduced by depreciation in the value of the dollar since 1985, they remained substantial in the l990s, and grew exponentially after 2000. Because some theorists believe that only a hegemonic power can (in its own best interests) enforce a liberal trading system, the relative (if not absolute) economic decline of the United States vis-a-via Germany and Japan must be considered against the military and political ascendancy of the United States over the now defunct Soviet Union, and its questionable success in dealing with challenges, such as those of petroleum exporting countries in determining whether a liberal trading regime (led by the U.S. or by some other nation or group of nations) will continue to remain in existence. If not, the world will split into trading blocs. This would be highly detrimental to developing nations, which would be excluded from all three, or would gravitate to the nearest one.

A number of recent developments influence world trade patterns in the 1990s and beyond. These include

- (1) the negotiation of free trade agreements by the U.S. with Israel (1985); with Canada (1989); with Canada, and Mexico (1993); with Jordan (2000); with Bahrain, and with Peru (2003); with Australia, with Chile, with Morocco, and with Singapore (2004); and with Korea (2007);
- (2) EU removal of remaining barriers to trade and adoption of a common currency;
- (3) negotiated reductions in tariffs and nontariff barriers in the Uruguay Round (1986-1994) of the GATT signed in April 1994 and ratified by the GATT Members;
- (4) the dismantling of the system of central planning and the movement toward a market system in many Eastern-bloc states and in China;
- (5) the reduction in special protectionist privileges for domestic elites in Latin America and other countries;
- (6) the ongoing expansion of domestic manufacturing and exports in a number of East Asian countries (especially China); and
- (7) continuing problems in coping with austerity and the servicing of foreign debt, especially in Latin America and Africa, with strict accounting and management practices mandated by the

International Monetary Fund (IMF) and by the **World Bank (IBRD).**

- (8) recent (2008) volatility in the world capital and commodity markets.

All of these developments indicate that states are becoming less and less able to control their own economic fortunes without complying with international regulation. Consequently, the concept of the political sovereignty and autonomy of separate nation-states is being seriously challenged for the first time in four centuries. At the time of this update in 2009, Multilateral Trade Negotiations (MTN) in the World Trade Organization are nearing collapse because of stresses primarily in the agricultural sectors. The United States has offered to drastically reduce agricultural subsidies to American farmers in exchange for more open markets for American agricultural products in developing countries such as India. India and similarly situated developing countries continue to refuse to remove measures to protect its hundreds of millions of farmers from cheap American grain.

David Ricardo and Comparative Advantage

The Theory of Comparative Advantage

David Ricardo, working in the early part of the 19th century, realized that **absolute advantage** was a limited case of a more general theory. Consider Table 1 (next page). It can be seen that Portugal can produce both wheat and wine more cheaply than England (*i.e.* it has an absolute advantage in both commodities). What David Ricardo saw was that it could still be mutually beneficial for both countries to specialize and trade with each other.

Table 1

Country	**Wheat**	**Wine**
	Cost Per Unit In Man Hours	**Cost Per Unit In Man Hours**
England	15	30
Portugal	10	15

In *Table 1*, a unit of wine in England costs the same amount to produce as 2 units of wheat. Production of an extra unit of wine means foregoing production of 2 units of wheat (ie the opportunity cost of a unit of wine is 2 units of wheat). In Portugal, a unit of wine costs 1.5 units of wheat to produce (ie the opportunity cost of a unit of wine is 1.5 units of wheat in Portugal). Because relative or comparative costs differ, it will still be mutually advantageous for both countries to trade even though Portugal has an absolute advantage in both commodities.

Portugal is relatively better at producing wine than wheat: so Portugal is said to have a **COMPARATIVE ADVANTAGE** in the production of wine over the production of wheat. England is relatively better at producing wheat than wine: so England is said to have a comparative advantage in the production of wheat.
Table 2 shows how trade might be advantageous. Costs of production are as set out in Table 1. England is assumed to have 270 man hours available for production. Before trade takes place it produces and consumes 8 units of wheat and 5 units of wine. Portugal has fewer labor resources with 180 man hours of labor available for production. Before trade takes place it produces and consumes 9 units of wheat and 6 units of wine. Total production between the two economies is 17 units of wheat and 11 units of wine.

Table 2

Country	**Production**			
	Before Trade		**After Trade**	
	Wheat	**Wine**	**Wheat**	**Wine**
England	8	5	18	0
Portugal	9	6	0	12
Total	17	11	18	12

If both countries now specialise, Portugal producing only wine and England producing only wheat, total production is 18 units of wheat and 12 units of wine. Specialisation has enabled the world economy to increase production by 1 unit of wheat and 1 unit of wine.

The simple theory of comparative advantage outlined above makes a number of important assumptions:

- Low transport costs.
- Costs are constant and there are no economies of scale.
- There are only two economies producing two goods.
- The theory assumes that traded goods are homogeneous (ie identical).
- Factors of production are assumed to be perfectly mobile.
- There are no tariffs or other trade barriers.
- There is perfect knowledge, so that all buyers and sellers know where the cheapest goods can be found internationally.

CLASS 2, Introduction: The WTO and WIPO

Summary of the Convention Establishing the World Intellectual Property Organization (WIPO Convention)

http://www.wipo.int/treaties/en/convention/summary_wipo_convention.html

The WIPO Convention, the constituent instrument of the World Intellectual Property Organization (WIPO), was signed at Stockholm on July 14, 1967, entered into force in 1970 and was amended in 1979. WIPO is an intergovernmental organization that became in 1974 one of the specialized agencies of the United Nations system of organizations.

The origins of WIPO go back to 1883 and 1886 when the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works, respectively, were concluded. Both Conventions provided for the establishment of an "international bureau". The two bureaus were united in 1893 and, in 1970, were replaced by the International Bureau, by virtue of the WIPO Convention.

WIPO has mainly two objectives. The first is to promote the protection of intellectual property throughout the world through cooperation among States and, where appropriate, in collaboration with any other international organization. The second is to ensure administrative cooperation among the intellectual property Unions established by the treaties that WIPO administers.

In order to attain these objectives, WIPO, in addition to performing the administrative tasks of the Unions, undertakes a number of activities, including:

(i) normative activities, involving the setting of norms and standards for the protection and enforcement of intellectual property rights through the conclusion of international treaties;

(ii) program activities, involving legal technical assistance to States in the field of intellectual property;

(iii) international classification and standardization activities, involving cooperation among industrial property offices concerning patents, trademarks and industrial design documentation; and

(iv) registration activities, involving services related to international applications for patents for inventions and the registration of international marks and industrial designs.

Membership in WIPO is open to any State which is a member of any of the Unions and to any other State satisfying one of the following conditions:

(i) it is a member of the United Nations, any of the specialized agencies brought into relationship with the United Nations, or the International Atomic Energy Agency,

(ii) it is a party to the Statute of the International Court of Justice; or

(iii) it has been invited by the General Assembly of WIPO to become a party to the Convention.

There are no obligations arising from membership of WIPO concerning other treaties administered by WIPO. Accession to WIPO is effected by means of the deposit with the Director General of WIPO in Geneva of an instrument of Accession to the WIPO Convention

The WIPO Convention establishes three main organs: The WIPO General Assembly, the WIPO Conference and the WIPO Coordination Committee. The WIPO General Assembly is composed of the member States of WIPO which are also members of any of the Unions. It meets once every two years in ordinary session and its main functions are, inter alia, the appointment of the Director General upon nomination by the Coordination Committee, review and approval of the reports of the Director General and the reports and activities of the Coordination Committee, adoption of the biennial budget common to the Unions, and adoption of the financial regulations of the Organization.

The WIPO Conference is composed of parties to the WIPO Convention. It meets once every two years in ordinary session. It is, inter alia, the competent body for adopting amendments to the Convention, for all matters relating to legal-technical assistance and establishes the biennial program of such assistance. It is also competent to discuss matters of general interest in the fields of intellectual property and it may adopt recommendations relating to such matters.

The WIPO Coordination Committee is composed of members elected from among the members of the Executive Committee of the Paris Union and the Executive Committee of the Berne Union. It meets every year in ordinary session and its main functions are to give advice to the organs of the Unions,

the General Assembly, the Conference, and the Director General, on all administrative and financial matters of interest to these bodies. It also prepares the draft agenda of the General Assembly and the draft agenda and draft program and budget of the Conference. The Coordination Committee also, when appropriate, nominates a candidate for the post for Director General for appointment by the General Assembly.

The principal sources of income of the regular budget of the International Bureau are the fees paid by the private users of the international registration services, and the contributions paid by the Governments of the member States. For the purposes of determining the amount of its contribution, each State belongs to one of 14 classes. The class for which the contribution is the highest is Class I involving the payment of 25 contribution units, whereas the class for which the contribution is the lowest is Class Ster involving the payment of 1/32 of one contribution unit. The amount of the contribution of each State is the same whether that State is a member only of WIPO, or only of one or more Unions, or both WIPO and one or more Unions.

The Secretariat of the Organization is called the International Bureau. The executive head of the International Bureau is the Director General who is appointed by the WIPO General Assembly and is assisted by two or more Deputy Directors General.

The headquarters of the Organization are in Geneva, Switzerland. The Organization has a Liaison Office at the United Nations in New York, United States of America.

The Organization benefits from the privileges and immunities granted to international organizations and their officials to facilitate the fulfillment of its objectives and exercise of its functions and has concluded a headquarters agreement with the Swiss Confederation to that effect.

Agreement Between the World Intellectual Property Organization and the World Trade Organization

http://www.wto.org/english/tratop_e/trips_e/wtowip_e.htm

Preamble

The World Intellectual Property Organization (WIPO) and the World Trade Organization (WTO),

Desiring to establish a mutually supportive relationship between them, and with a view to establishing appropriate arrangements for cooperation between them,

Agree as follows:…

Article 4 Legal-Technical Assistance and Technical Cooperation
…

(2) [Cooperation Between the International Bureau and the WTO Secretariat] The International Bureau and the WTO Secretariat shall enhance cooperation in their legal-technical assistance and technical cooperation activities relating to the TRIPS Agreement for developing countries, so as to maximize the usefulness of those activities and ensure their mutually supportive nature.
…
Article 5
Final Clauses

(1) [Entry into Force of this Agreement] This Agreement shall enter into force on January 1, 1996.

(2) [Amendment of this Agreement] This Agreement may be amended by common agreement of the parties to this Agreement.

(3) [Termination of this Agreement] If one of the parties to this Agreement gives the other party written notice to terminate this Agreement, this Agreement shall terminate one year after receipt of the notice by the other party, unless a longer period is specified in the notice or unless both parties agree on a longer or a shorter period.

Done in Geneva on 22 December 1995.

Overview: the TRIPS Agreement
http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm

The TRIPS Agreement, which came into effect on 1 January 1995, is to date the most comprehensive multilateral agreement on intellectual property. The areas of intellectual property that it covers are: copyright and related rights (i.e. the rights of performers, producers of sound recordings and broadcasting organizations); trademarks including service marks; geographical indications including appellations of origin; industrial designs; patents including the protection of new varieties of plants; the layout designs

of integrated circuits; and undisclosed information including trade secrets and test data.

The three main features of the Agreement are:

- Standards. In respect of each of the main areas of intellectual property covered by the TRIPS Agreement, the Agreement sets out the minimum standards of protection to be provided by each Member. Each of the main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection. The Agreement sets these standards by requiring, first, that the substantive obligations of the main conventions of the WIPO, the Paris Convention for the Protection of Industrial Property (Paris Convention) and the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) in their most recent versions, must be complied with. With the exception of the provisions of the Berne Convention on moral rights, all the main substantive provisions of these conventions are incorporated by reference and thus become obligations under the TRIPS Agreement between TRIPS Member countries. The relevant provisions are to be found in Articles 2.1 and 9.1 of the TRIPS Agreement, which relate, respectively, to the Paris Convention and to the Berne Convention. Secondly, the TRIPS Agreement adds a substantial number of additional obligations on matters where the pre-existing conventions are silent or were seen as being inadequate. The TRIPS Agreement is thus sometimes referred to as a Berne and Paris-plus agreement.
- Enforcement. The second main set of provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights. The Agreement lays down certain general principles applicable to all IPR enforcement procedures. In addition, it contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies that must be available so that right holders can effectively enforce their rights.
- Dispute settlement. The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.

In addition the Agreement provides for certain basic principles, such as national and most-favoured-nation treatment, and some general rules to ensure that procedural difficulties in acquiring or maintaining IPRs do not nullify the substantive benefits that should flow from the Agreement. The obligations under the Agreement will apply equally to all Member countries, but developing countries will have a longer period to phase them in. Special transition arrangements operate in the situation where a developing country does not presently provide product patent protection in the area of pharmaceuticals.

The TRIPS Agreement is a minimum standards agreement, which allows Members to provide more extensive protection of intellectual property if they so wish. Members are left free to determine the appropriate method of implementing the provisions of the Agreement within their own legal system and practice.

Certain general provisions

As in the main pre-existing intellectual property conventions, the basic obligation on each Member country is to accord the treatment in regard to the protection of intellectual property provided for under the Agreement to the persons of other Members. Article 1.3 defines who these persons are. These persons are referred to as "nationals" but include persons, natural or legal, who have a close attachment to other Members without necessarily being nationals. The criteria for determining which persons must thus benefit from the treatment provided for under the Agreement are those laid down for this purpose in the main pre-existing intellectual property conventions of WIPO, applied of course with respect to all WTO Members whether or not they are party to those conventions. These conventions are the Paris Convention, the Berne Convention, International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (Rome Convention), and the Treaty on Intellectual Property in Respect of Integrated Circuits (IPIC Treaty).
Articles 3, 4 and 5 include the fundamental rules on national and most-favoured-nation treatment of foreign nationals, which are common to all categories of intellectual property covered by the Agreement. These obligations cover not only the substantive standards of protection but also 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 the Agreement. While the national treatment clause forbids discrimination between a Member's own nationals and the nationals of other Members, the most-favoured-nation treatment clause forbids discrimination between the nationals of other Members. In respect of the national treatment obligation, the exceptions allowed under the pre-existing intellectual property conventions of WIPO are also allowed under TRIPS. Where these exceptions allow material reciprocity, a consequential exception to MFN treatment is also permitted (e.g. comparison of terms for copyright protection in excess of the minimum term required by the TRIPS Agreement as provided under Article 7(8) of the Berne Convention as incorporated into the TRIPS Agreement). Certain other limited exceptions to the MFN obligation are also provided for.
The general goals of the TRIPS Agreement are contained in the Preamble of the Agreement, which reproduces the basic Uruguay Round negotiating

objectives established in the TRIPS area by the 1986 Punta del Este Declaration and the 1988/89 Mid-Term Review. These objectives include the reduction of distortions and impediments to international trade, promotion of effective and adequate protection of intellectual property rights, and ensuring that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade. These objectives should be read in conjunction with Article 7, entitled "Objectives", according to which 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, entitled "Principles", recognizes the rights of Members to adopt measures for public health and other public interest reasons and to prevent the abuse of intellectual property rights, provided that such measures are consistent with the provisions of the TRIPS Agreement.

NOTE:

The WIPO-WTO Agreement. The incorporation of international intellectual property law within the GATT/WTO system threatened (perhaps destroyed) the primacy of the WIPO in international intellectual property relations. Yet, although the TRIPS exercise was in part motivated by dissatisfaction with the ability of the WIPO-based system to develop and enforce international standards of intellectual property protection, the expertise of the WIPO was important in concluding the TRIPS Agreement. And the TRIPS Agreement expressly contemplates a continuing role for WIPO, both in the context of WTO dispute settlement, see TRIPS art. 68, and in the periodic reviews of TRIPS implementation for which the TRIPS Council is responsible under Article 71. Although WIPO is not permitted to provide interpretations of the conventions that it administers, WIPO may (upon the request of a WTO panel) be able to supply information regarding such matters as the negotiating history of a WIPO-administered convention. And WIPO offers significant assistance to countries involved in drafting, revising, or implementing their intellectual property laws in such a way as to be TRIPS-compliant.

In December 1995, the two institutions signed a cooperation agreement formalizing their relations on an ongoing basis. See Agreement Between World Intellectual Property Organization and the World Trade Organization, Dec. 22, 1995, 35 I.L.M. 754. Under this agreement, WTO members and nationals of WTO members are entitled to copies of laws and regulations, and copies of translations thereof, that exist in WIPO's collection, and access to any computerized database of such laws, on the same terms as apply to the

member states of WIPO and to nationals of the member states of WIPO. See art. 2. Similar benefits are accorded the WTO Secretariat and the Council for TRIPS in order that they can carry out their responsibilities under the TRIPS Agreement. See, e.g., TRIPS art. 68. In return, the WTO Secretariat undertook to transmit to the International Bureau of WIPO, free of charge, a copy of the laws and regulations received by the WTO Secretariat from WTO members under Article 63.2 of the TRIPS Agreement.
WIPO also agreed to make available to developing country WTO members which are not member states of WIPO the same assistance for translation of laws and regulations for the purposes of Article 63.2 of the TRIPS Agreement, the same legal-technical assistance relating to the TRIPS Agreement, and the same technical cooperation, as it makes available to members of WIPO which are developing countries. The Agreements also affirmed more generally that the International Bureau of the WIPO and the WTO Secretariat will enhance cooperation in their legal-technical assistance and technical cooperation activities relating to the TRIPS Agreement for developing countries.

Overview: the TRIPS Agreement

Substantive standards of protection

Copyright

During the Uruguay Round negotiations, it was recognized that the Berne Convention already, for the most part, provided adequate basic standards of copyright protection. Thus it was agreed that the point of departure should be the existing level of protection under the latest Act, the Paris Act of 1971, of that Convention. The point of departure is expressed in Article 9.1 under which Members are obliged to comply with the substantive provisions of the Paris Act of 1971 of the Berne Convention, i.e. Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto. However, Members do not have rights or obligations under the TRIPS Agreement in respect of the rights conferred under Article 6bis of that Convention, i.e. the moral rights (the right to claim authorship and to object to any derogatory action in relation to a work, which would be prejudicial to the author's honour or reputation), or of the rights derived therefrom. The provisions of the Berne Convention referred to deal with questions such as subject-matter to be protected, minimum term of protection, and rights to be conferred and permissible limitations to those rights. The Appendix allows developing countries, under certain conditions, to make some limitations to the right of translation and the right of reproduction.

In addition to requiring compliance with the basic standards of the Berne Convention, the TRIPS Agreement clarifies and adds certain specific points.

Article 9.2 confirms that copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such.

Article 10.1 provides that computer programs, whether in source or object code, shall be protected as literary works under the Berne Convention (1971). This provision confirms that computer programs must be protected under copyright and that those provisions of the Berne Convention that apply to literary works shall be applied also to them. It confirms further, that the form in which a program is, whether in source or object code, does not affect the protection. The obligation to protect computer programs as literary works means e.g. that only those limitations that are applicable to literary works may be applied to computer programs. It also confirms that the general term of protection of 50 years applies to computer programs. Possible shorter terms applicable to photographic works and works of applied art may not be applied.

Article 10.2 clarifies that databases and other compilations of data or other material shall be protected as such under copyright even where the databases include data that as such are not protected under copyright. Databases are eligible for copyright protection provided that they by reason of the selection or arrangement of their contents constitute intellectual creations. The provision also confirms that databases have to be protected regardless of which form they are in, whether machine readable or other form. Furthermore, the provision clarifies that such protection shall not extend to the data or material itself, and that it shall be without prejudice to any copyright subsisting in the data or material itself.

Article 11 provides that authors shall have in respect of at least computer programs and, in certain circumstances, of cinematographic works the right to authorize or to prohibit the commercial rental to the public of originals or copies of their copyright works. With respect to cinematographic works, the exclusive rental right is subject to the so-called impairment test: a Member is excepted from the obligation unless such rental has led to widespread copying of such works which is materially impairing the exclusive right of reproduction conferred in that Member on authors and their successors in title. In respect of computer programs, the obligation does not apply to rentals where the program itself is not the essential object of the rental.

According to the general rule contained in Article 7(1) of the Berne Convention as incorporated into the TRIPS Agreement, the term of protection shall be the life of the author and 50 years after his death. Paragraphs 2 through 4 of that Article specifically allow shorter terms in certain cases. These provisions are supplemented by Article 12 of the TRIPS Agreement, which provides that whenever the term of protection of a work, other than a photographic work or a work of applied art, is calculated on a basis other than the life of a natural person, such term shall be no less than 50 years from the end of the calendar year of authorized publication, or, failing such authorized publication within 50 years from the making of the work, 50 years from the end of the calendar year of making.

Article 13 requires Members to confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder. This is a horizontal provision that applies to all limitations and exceptions permitted under the provisions of the Berne Convention and the Appendix thereto as incorporated into the TRIPS Agreement. The application of these limitations is permitted also under the TRIPS Agreement, but the provision makes it clear that they must be applied in a manner that does not prejudice the legitimate interests of the right holder.

Related rights

The provisions on protection of performers, producers of phonograms and broadcasting organizations are included in Article 14. According to Article 14.1, performers shall have the possibility of preventing the unauthorized fixation of their performance on a phonogram (e.g. the recording of a live musical performance). The fixation right covers only aural, not audiovisual fixations. Performers must also be in position to prevent the reproduction of such fixations. They shall also have the possibility of preventing the unauthorized broadcasting by wireless means and the communication to the public of their live performance.

In accordance with Article 14.2, Members have to grant producers of phonograms an exclusive reproduction right. In addition to this, they have to grant, in accordance with Article 14.4, an exclusive rental right at least to producers of phonograms. The provisions on rental rights apply also to any other right holders in phonograms as determined in national law. This right has the same scope as the rental right in respect of computer programs. Therefore it is not subject to the impairment test as in respect of cinematographic works. However, it is limited by a so-called grand-fathering clause, according to which a

Member, which on 15 April 1994, i.e. the date of the signature of the Marrakesh Agreement, had in force a system of equitable remuneration of right holders in respect of the rental of phonograms, may maintain such system provided that the commercial rental of phonograms is not giving rise to the material impairment of the exclusive rights of reproduction of right holders.

Broadcasting organizations shall have, in accordance with Article 14.3, the right to prohibit the unauthorized fixation, the reproduction of fixations, and the rebroadcasting by wireless means of broadcasts, as well as the communication to the public of their television broadcasts. However, it is not necessary to grant such rights to broadcasting organizations, if owners of copyright in the subject-matter of broadcasts are provided with the possibility of preventing these acts, subject to the provisions of the Berne Convention.

The term of protection is at least 50 years for performers and producers of phonograms, and 20 years for broadcasting organizations (Article 14.5).

Article 14.6 provides that any Member may, in relation to the protection of performers, producers of phonograms and broadcasting organizations, provide for conditions, limitations, exceptions and reservations to the extent permitted by the Rome Convention.

Trademarks

The basic rule contained in Article 15 is that any sign, or any combination of signs, capable of distinguishing the goods and services of one undertaking from those of other undertakings, must be eligible for registration as a trademark, provided that it is visually perceptible. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, must be eligible for registration as trademarks.

Where signs are not inherently capable of distinguishing the relevant goods or services, Member countries are allowed to require, as an additional condition for eligibility for registration as a trademark, that distinctiveness has been acquired through use. Members are free to determine whether to allow the registration of signs that are not visually perceptible (e.g. sound or smell marks).

Members may make registrability depend on use. However, actual use of a trademark shall not be permitted as a condition for filing an

application for registration, and at least three years must have passed after that filing date before failure to realize an intent to use is allowed as the ground for refusing the application (Article 14.3).

The Agreement requires service marks to be protected in the same way as marks distinguishing goods (see e.g. Articles 15.1, 16.2 and 62.3).

The owner of a registered trademark must be granted the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion must be presumed (Article 16.1).

The TRIPS Agreement contains certain provisions on well-known marks, which supplement the protection required by Article 6bis of the Paris Convention, as incorporated by reference into the TRIPS Agreement, which obliges Members to refuse or to cancel the registration, and to prohibit the use of a mark conflicting with a mark which is well known. First, the provisions of that Article must be applied also to services. Second, it is required that knowledge in the relevant sector of the public acquired not only as a result of the use of the mark but also by other means, including as a result of its promotion, be taken into account. Furthermore, the protection of registered well-known marks must extend to goods or services which are not similar to those in respect of which the trademark has been registered, provided that its use would indicate a connection between those goods or services and the owner of the registered trademark, and the interests of the owner are likely to be damaged by such use (Articles 16.2 and 3).

Members may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties (Article 17).

Initial registration, and each renewal of registration, of a trademark shall be for a term of no less than seven years. The registration of a trademark shall be renewable indefinitely (Article 18).

Cancellation of a mark on the grounds of non-use cannot take place before three years of uninterrupted non-use has elapsed unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner. Circumstances arising independently of the will of the owner of the trademark, such as import restrictions or other

government restrictions, shall be recognized as valid reasons of non-use. Use of a trademark by another person, when subject to the control of its owner, must be recognized as use of the trademark for the purpose of maintaining the registration (Article 19).

It is further required that use of the trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trademark, use in a special form, or use in a manner detrimental to its capability to distinguish the goods or services (Article 20).

Geographical indications

Geographical indications are defined, for the purposes of the Agreement, as indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin (Article 22.1). Thus, this definition specifies that the quality, reputation or other characteristics of a good can each be a sufficient basis for eligibility as a geographical indication, where they are essentially attributable to the geographical origin of the good.

In respect of all geographical indications, interested parties must have legal means to prevent use of indications which mislead the public as to the geographical origin of the good, and use which constitutes an act of unfair competition within the meaning of Article 10bis of the Paris Convention (Article 22.2).

The registration of a trademark which uses a geographical indication in a way that misleads the public as to the true place of origin must be refused or invalidated ex officio if the legislation so permits or at the request of an interested party (Article 22.3).

Article 23 provides that interested parties must have the legal means to prevent the use of a geographical indication identifying wines for wines not originating in the place indicated by the geographical indication. This applies even where the public is not being misled, there is no unfair competition and the true origin of the good is indicated or the geographical indication is accompanied be expressions such as “kind”, “type”, “style”, “imitation” or the like. Similar protection must be given to geographical indications identifying spirits when used on spirits. Protection against registration of a trademark must be provided accordingly.

Article 24 contains a number of exceptions to the protection of geographical indications. These exceptions are of particular relevance in respect of the additional protection for geographical indications for wines and spirits. For example, Members are not obliged to bring a geographical indication under protection, where it has become a generic term for describing the product in question (paragraph 6). Measures to implement these provisions shall not prejudice prior trademark rights that have been acquired in good faith (paragraph 5). Under certain circumstances, continued use of a geographical indication for wines or spirits may be allowed on a scale and nature as before (paragraph 4). Members availing themselves of the use of these exceptions must be willing to enter into negotiations about their continued application to individual geographical indications (paragraph 1). The exceptions cannot be used to diminish the protection of geographical indications that existed prior to the entry into force of the TRIPS Agreement (paragraph 3). The TRIPS Council shall keep under review the application of the provisions on the protection of geographical indications (paragraph 2).

Industrial designs

Article 25.1 of the TRIPS Agreement obliges Members to provide for the protection of independently created industrial designs that are new or original. Members may provide that designs are not new or original if they do not significantly differ from known designs or combinations of known design features. Members may provide that such protection shall not extend to designs dictated essentially by technical or functional considerations.

Article 25.2 contains a special provision aimed at taking into account the short life cycle and sheer number of new designs in the textile sector: requirements for securing protection of such designs, in particular in regard to any cost, examination or publication, must not unreasonably impair the opportunity to seek and obtain such protection. Members are free to meet this obligation through industrial design law or through copyright law.

Article 26.1 requires Members to grant the owner of a protected industrial design the right to prevent third parties not having the owner's consent from making, selling or importing articles bearing or embodying a design which is a copy, or substantially a copy, of the protected design, when such acts are undertaken for commercial purposes.

Article 26.2 allows Members to provide limited exceptions to the protection of industrial designs, provided that such exceptions do not unreasonably conflict with the normal exploitation of protected industrial designs and do not unreasonably prejudice the legitimate interests of the owner of the protected design, taking account of the legitimate interests of third parties.

The duration of protection available shall amount to at least 10 years (Article 26.3). The wording "amount to" allows the term to be divided into, for example, two periods of five years.

Patents

The TRIPS Agreement requires Member countries to make patents available for any inventions, whether products or processes, in all fields of technology without discrimination, subject to the normal tests of novelty, inventiveness and industrial applicability. It is also required that patents be available and patent rights enjoyable without discrimination as to the place of invention and whether products are imported or locally produced (Article 27.1).

There are three permissible exceptions to the basic rule on patentability. One is for inventions contrary to ordre public or morality; this explicitly includes inventions dangerous to human, animal or plant life or health or seriously prejudicial to the environment. The use of this exception is subject to the condition that the commercial exploitation of the invention must also be prevented and this prevention must be necessary for the protection of ordre public or morality (Article 27.2).

The second exception is that Members may exclude from patentability diagnostic, therapeutic and surgical methods for the treatment of humans or animals (Article 27.3(a)).

The third is that Members may exclude plants and animals other than micro-organisms and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, any country excluding plant varieties from patent protection must provide an effective sui generis system of protection. Moreover, the whole provision is subject to review four years after entry into force of the Agreement (Article 27.3(b)).

The exclusive rights that must be conferred by a product patent are the ones of making, using, offering for sale, selling, and importing for these purposes. Process patent protection must give rights not only over use of the process but also over products obtained directly by the process.

Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts (Article 28).

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 (Article 30).

The term of protection available shall not end before the expiration of a period of 20 years counted from the filing date (Article 33).

Members shall require that an applicant for a patent shall disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art and may require the applicant to indicate the best mode for carrying out the invention known to the inventor at the filing date or, where priority is claimed, at the priority date of the application (Article 29.1).

If the subject-matter of a patent is a process for obtaining a product, the judicial authorities shall have the authority to order the defendant to prove that the process to obtain an identical product is different from the patented process, where certain conditions indicating a likelihood that the protected process was used are met (Article 34).

Compulsory licensing and government use without the authorization of the right holder are allowed, but are made subject to conditions aimed at protecting the legitimate interests of the right holder. The conditions are mainly contained in Article 31. These include the obligation, as a general rule, to grant such licences only if an unsuccessful attempt has been made to acquire a voluntary licence on reasonable terms and conditions within a reasonable period of time; the requirement to pay adequate remuneration in the circumstances of each case, taking into account the economic value of the licence; and a requirement that decisions be subject to judicial or other independent review by a distinct higher authority. Certain of these conditions are relaxed where compulsory licences are employed to remedy practices that have been established as anticompetitive by a legal process. These conditions should be read together with the related provisions of Article 27.1, which require that patent rights shall be enjoyable without discrimination as to the field of technology, and whether products are imported or locally produced.

Layout-designs of integrated circuits

Article 35 of the TRIPS Agreement requires Member countries to protect the layout-designs of integrated circuits in accordance with the provisions of the IPIC Treaty (the Treaty on Intellectual Property in Respect of Integrated Circuits), negotiated under the auspices of WIPO in 1989. These provisions deal with, inter alia, the definitions of "integrated circuit" and "layout-design (topography)", requirements for protection, exclusive rights, and limitations, as well as exploitation, registration and disclosure. An "integrated circuit" means a product, in its final form or an intermediate form, in which the elements, at least one of which is an active element, and some or all of the interconnections are integrally formed in and/or on a piece of material and which is intended to perform an electronic function. A "layout-design (topography)" is defined as the three-dimensional disposition, however expressed, of the elements, at least one of which is an active element, and of some or all of the interconnections of an integrated circuit, or such a three-dimensional disposition prepared for an integrated circuit intended for manufacture. The obligation to protect layout-designs applies to such layout-designs that are original in the sense that they are the result of their creators' own intellectual effort and are not commonplace among creators of layout-designs and manufacturers of integrated circuits at the time of their creation. The exclusive rights include the right of reproduction and the right of importation, sale and other distribution for commercial purposes. Certain limitations to these rights are provided for.

In addition to requiring Member countries to protect the layout-designs of integrated circuits in accordance with the provisions of the IPIC Treaty, the TRIPS Agreement clarifies and/or builds on four points. These points relate to the term of protection (ten years instead of eight, Article 38), the applicability of the protection to articles containing infringing integrated circuits (last sub clause of Article 36) and the treatment of innocent infringers (Article 37.1). The conditions in Article 31 of the TRIPS Agreement apply mutatis mutandis to compulsory or non-voluntary licensing of a layout-design or to its use by or for the government without the authorization of the right holder, instead of the provisions of the IPIC Treaty on compulsory licensing (Article 37.2).

Protection of undisclosed information

The TRIPS Agreement requires undisclosed information -- trade secrets or know-how -- to benefit from protection. According to Article 39.2, the protection must apply to information that is secret, that has commercial value because it is secret and that has been subject to reasonable steps to keep it secret. The Agreement does not require undisclosed information to be treated as a form of property, but it does require that

a person lawfully in control of such information must have the possibility of preventing it from being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices. "Manner contrary to honest commercial practices" includes breach of contract, breach of confidence and inducement to breach, as well as the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.

The Agreement also contains provisions on undisclosed test data and other data whose submission is required by governments as a condition of approving the marketing of pharmaceutical or agricultural chemical products which use new chemical entities. In such a situation the Member government concerned must protect the data against unfair commercial use. In addition, Members must protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.

Control of anti-competitive practices in contractual licences

Article 40 of the TRIPS Agreement recognizes that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology (paragraph 1). Member countries may adopt, consistently with the other provisions of the Agreement, appropriate measures to prevent or control practices in the licensing of intellectual property rights which are abusive and anti-competitive (paragraph 2). The Agreement provides for a mechanism whereby a country seeking to take action against such practices involving the companies of another Member country can enter into consultations with that other Member and exchange publicly available non-confidential information of relevance to the matter in question and of other information available to that Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member (paragraph 3). Similarly, a country whose companies are subject to such action in another Member can enter into consultations with that Member (paragraph 4).

Enforcement of intellectual property rights

The provisions on enforcement are contained in Part III of the Agreement, which is divided into five Sections. The first Section lays down general obligations that all enforcement procedures must meet.

These are notably aimed at ensuring their effectiveness and that certain basic principles of due process are met. The following Sections deal with civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures. These provisions have two basic objectives: one is to ensure that effective means of enforcement are available to right holders; the second is to ensure that enforcement procedures are applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

The Agreement makes a distinction between infringing activity in general, in respect of which civil judicial procedures and remedies must be available, and counterfeiting and piracy -- the more blatant and egregious forms of infringing activity -- in respect of which additional procedures and remedies must also be provided, namely border measures and criminal procedures. For this purpose, counterfeit goods are in essence defined as goods involving slavish copying of trademarks, and pirated goods as goods which violate a reproduction right under copyright or a related right.

General obligations

The general obligations relating to enforcement are contained in Article 41. Paragraph 1 requires that enforcement procedures must be such as to permit effective action against any act of infringement of intellectual property rights, and that the remedies available must be expeditious in order to prevent infringements and they must constitute a deterrent to further infringements. On the other hand, these procedures must be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

The following three paragraphs contain certain general principles, the aim of which is to guarantee due process. Paragraph 2 deals with enforcement procedures. Such procedures must be fair and equitable, and they may not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays. Paragraph 3 concerns decisions on the merits of a case. Such decisions shall preferably be in writing and reasoned, and they shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard. Paragraph 4 requires that parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in a Member's law concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the

merits of a case. However, there is no obligation to provide an opportunity for review of acquittals in criminal cases.

According to paragraph 5, it is understood that the provisions on enforcement do not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. In addition, it is stated that nothing in these provisions creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general. However, a number of countries have found it helpful to establish special enforcement units that pool together required experience needed to effectively fight against counterfeiting and piracy. Moreover, some countries have centralized certain types of intellectual property issues in one or a limited number of courts in order to ensure the availability of necessary expertise.

Civil and administrative procedures and remedies

The second Section requires that civil judicial procedures must be available in respect of any activity infringing intellectual property rights covered by the Agreement. The provisions of the Section elaborate in more detail basic features that such procedures must provide for.

Article 42 contains certain principles aiming at ensuring due process. Defendants are entitled to written notice which is timely and contains sufficient details of the claims. Parties must be allowed to be represented by independent legal counsel, and procedures may not impose overly burdensome requirements concerning mandatory personal appearances. All parties are entitled to substantiate their claims and to present all relevant evidence, while confidential information must be identified and protected.

Article 43 deals with how the rules on evidence should be applied in certain situations. In a situation where evidence that is likely to be important for one party is in the possession of the opposing party, the court must be empowered, provided that certain conditions are met, to order the latter party to produce that evidence. In addition, courts may be authorized to make their decisions on the basis of information presented to them, if a party refuses without good reason access to evidence that is in his or her possession, subject to providing the parties an opportunity to be heard.

The Section contains provisions on injunctions, damages and other remedies. Article 44 requires that the courts be empowered to order injunctions, i.e. to order a party to desist from infringements, including the possibility to prevent imported infringing goods from entering into domestic distribution channels. Members are not obliged to provide that authority where a person has acted in good faith. Article 45 provides that the courts must be empowered to order an infringer, at least if he or she acted in bad faith, to pay the right holder adequate damages. They must also be authorized to order the infringer to pay the right holder's expenses. These expenses may include appropriate attorney's fees. In appropriate cases, the courts may be authorized to order recovery of profits and/or payment of pre-established damages even where the infringer acted in good faith.

In order to create an effective deterrent to infringement, Article 46 requires that the judicial authorities must have the authority to order infringing goods to be disposed of outside the channels of commerce, or, where constitutionally possible, destroyed. Similarly, it must be possible to dispose of materials and instruments predominantly used in the production of the infringing goods. In considering such requests, the courts must take into account proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties. In respect of counterfeit trademark goods, it is clarified that the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.

The judicial authorities may be authorized to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution (Article 47). This option is aimed at assisting the right holders to find the source of infringing goods and to take appropriate action against other persons in the distribution channels. This provision must be applied in a way that is in proportion to the seriousness of the infringement.

The Section contains certain safeguards against abuse of enforcement procedures. Article 48 provides that the judicial authorities must have the authority to order the applicant who has abused enforcement procedures to pay an adequate compensation to the defendant who has been wrongfully enjoined or restrained to cover both the injury suffered and expenses. Such expenses may include appropriate attorney's fees. Public authorities and officials are exempted from liability to appropriate remedial measures only where actions are taken or intended in good faith in the course of the administration of that law.

Article 49 provides that, to the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in the Section.

Provisional measures

Article 41 requires that enforcement procedures must permit effective action against infringements and must include expeditious remedies. As these judicial procedures may take a fair amount of time, it is necessary for the judicial authorities to be empowered to provide provisional relief for the right holder in order to stop an alleged infringement immediately. The provisions on provisional measures are contained in Article 50. It requires each country to ensure that its judicial authorities have the authority to order prompt and effective provisional measures. Such measures must be available in respect of any intellectual property right. Provisional measures have to be available in two situations. One is where they are needed to prevent an infringement from occurring, and to prevent infringing goods from entering into the channels of commerce. This includes preventing imported infringing goods from being dispersed into domestic distribution channels immediately after customs clearance. The other situation is where such measures are needed to preserve relevant evidence in regard to the alleged infringement.

Effective use of provisional measures may require that action be taken without giving prior notice to the other side. Therefore, the judicial authorities must have the authority to adopt provisional measures inaudita altera parte, i.e. without prior hearing of the other side, where appropriate, in particular where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed (paragraph 2).

The courts may require the applicant to provide any reasonably available adequate evidence that the applicant is the right holder and that the applicant's right is being infringed or that such infringement is imminent (paragraph 3). The applicant may also be required to supply information necessary for the identification of the goods (paragraph 5). Where provisional measures have been adopted inaudita altera parte, the parties affected must be given notice, without delay after the execution of the measures at the latest. The defendant has a right to review with a view to deciding, within a reasonable period after the notification of the measures, whether these measures shall be modified, revoked or confirmed (paragraph 4).

The provisions on provisional measures contain certain safeguards against abuse of such measures. The judicial authority may require the applicant to provide a security or equivalent assurance sufficient to protect the defendant and to prevent abuse (paragraph 3). Provisional measures shall, upon request by the defendant, be revoked or otherwise cease to have effect, if the applicant fails to initiate proceedings leading to a decision on the merits of the case within a reasonable period to be determined by the judicial authority ordering the measures. In the absence of such a determination, this period may not exceed 20 working days or 31 calendar days, whichever is the longer (paragraph 6). Where the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where it is subsequently found that there has been no infringement or threat of infringement of an intellectual property right, the judicial authorities shall have the authority to order the applicant to provide the defendant appropriate compensation for any injury caused by these measures (paragraph 7).

The above principles apply also to administrative procedures to the extent that any provisional measure can be ordered as a result of such procedures (paragraph 8).

Special requirements related to border measures

The emphasis in the enforcement part of the TRIPS Agreement is on internal enforcement mechanisms, which, if effective, would enable infringing activity to be stopped at source, the point of production. Where possible, this is both a more efficient way of enforcing IPRs and less liable to give rise to risks of discrimination against imports than special border measures. However, the Agreement recognizes that such enforcement at source will not always be possible and that in any event not all countries are Members of the TRIPS Agreement. The Agreement therefore also recognizes the importance of border enforcement procedures that will enable right holders to obtain the cooperation of customs administrations so as to prevent the release of infringing imports into free circulation. The special requirements related to border measures are contained in Section 4 of the enforcement part of the Agreement.

According to Article 51 of the Agreement, the goods which must be subject to border enforcement procedures must include at least counterfeit trademark and pirated copyright goods that are being presented for importation (see footnote 14 to that Article for the precise definition of these terms). The Article leaves flexibility to Member governments on whether to include imports of goods which involve other infringements of IPRs. Members are also free to determine whether to

apply these procedures to parallel imports. This is confirmed in footnote 13 to the Article, according to which it is understood that there shall be no obligation to apply such procedures to imports of goods put on the market in another country by or with the consent of the right holder. In accordance with Article 60, Members may exclude from the application of these procedures de minimis imports, i.e. small quantities of goods of a non-commercial nature contained in travellers' personal luggage or sent in small consignments. Article 51 leaves it to Members to decide whether to apply corresponding procedures to the suspension by customs authorities of infringing goods destined for exportation from their territories, or to goods in transit.

The basic mechanism required by the Agreement is that each Member must designate a "competent authority", which could be administrative or judicial in nature, to which applications by right holders for customs action shall be lodged (Article 51). The right holder lodging an application to the competent authority shall be required to provide adequate evidence of a prima facie infringement of his IPR and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities. The competent authorities shall then inform the applicant whether the application has been accepted and, if so, for what period, and give the necessary directions to customs officers (Article 52). After this, it is the responsibility of the applicant to initiate proceedings leading to a decision on the merits of the case. The Agreement requires a system to be put in place under which action will be taken on the basis of an application from a right holder, but leaves it to Members to determine whether they require competent authorities to act upon their own initiative. Article 58 contains certain additional provisions applicable to such ex officio action.

The provisions on border measures require the taking of what are essentially provisional measures against imports of infringing goods. Many of the same types of safeguards against abuse as appear in Article 50 on provisional judicial measures are provided for. The competent authority may require the applicant to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities and to prevent abuse. However, such security or equivalent assurance may not be such as to unreasonably deter recourse to these procedures (Article 53.1). The importer and the applicant must be promptly notified of the detention of goods (Article 54). If the right holder fails to initiate proceedings leading to a decision on the merits of a case within ten working days, the goods shall normally be released (Article 55). Where goods involve the alleged infringement of industrial

designs, patents, layout-designs or undisclosed information, the importer must be entitled to obtain their release on the posting of a security sufficient to protect the right holder from any infringement, even if proceedings leading to a decision on the merits have been initiated (Article 53.2). Once judicial proceedings on the merits of a case have been initiated, the judicial authority may continue the suspension of the release of goods in accordance with a provisional judicial measure. In that case, the provisions on provisional measures in Article 50 shall be applied. The applicant may be required to pay appropriate compensation to persons whose interests have been adversely affected by the wrongful detention of goods or through detention of goods released pursuant to the failure of the applicant to initiate in time proceedings leading to a decision on the merits of the case (Article 56).

The competent authorities must be able to give the right holder sufficient opportunity to have any goods detained by the customs authorities inspected in order to substantiate his or her claims. Where goods have been found infringing as a result of a decision on the merits, the Agreement leaves it to Members whether to enable the right holder to be informed of other persons in the distribution channel so that appropriate action could also be taken against them (Article 57).

In regard to remedies, the competent authorities must have the power to order the destruction or disposal outside the channels of commerce of infringing goods in such a manner as to avoid any harm to the right holder. The principles contained in Article 46 on civil remedies, such as the need for proportionality, apply also to border measures. In regard to counterfeit trademark goods, the authorities may not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances. These remedies are without prejudice to other rights of action open to the right holder, such as to obtain damages through civil litigation, and are also subject to the right of the defendant to seek review by a judicial authority (Article 59).

Criminal procedures

The fifth and final section in the enforcement chapter of the TRIPS Agreement deals with criminal procedures. According to Article 61, provision must be made for these to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. The Agreement leaves it to Members to decide whether to provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.

Sanctions must include imprisonment and/or monetary fines sufficient to provide a deterrent, consistent with the level of penalties applied for crimes of a corresponding gravity. Criminal remedies in appropriate cases must also include seizure, forfeiture and destruction of the infringing goods and of materials and instruments used to produce them.

AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS, INCLUDING TRADE IN COUNTERFEIT GOODS

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 the 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 (WIPO) as well as other relevant international organisations;

Hereby agree as follows:

PART I: GENERAL PROVISIONS AND BASIC PRINCIPLES

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 domestic 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.

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 to 7 of Part II.

…

Article 2 ***Intellectual Property Conventions***

1. In respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1-12 and 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.
…

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 national 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.

Part II: Standards Concerning the Availability, Scope and Use of Intellectual Property Rights [Articles 9 to 40]

1. Copyright and Related Rights
2. Trademarks
3. Geographical Indications
4. Industrial Designs
5. Patents
6. Layout-Designs (Topographies) of Integrated Circuits
7. Protection of Undisclosed Information
8. Control of Anti-Competitive Practices in Contractual Licences

Part III: Enforcement of Intellectual Property Rights [Articles 41-61]

1. General Obligations
2. Civil and Administrative Procedures and Remedies
3. Provisional Measures
4. Special Requirements Related to Border Measures
5. Criminal Procedures

Part IV: Acquisition and Maintenance of Intellectual Property Rights and
Related Inter-Partes Procedures [Article 62]

Part V: Dispute Prevention and Settlement [Articles 63-64]

Part VI: Transitional Arrangements [Articles 65-67]

Part VII: Institutional Arrangements; Final Provisions [Articles 68-73]

CLASS 3, GATT Principles: Unconditional MFN, National Treatment, General Exceptions, Nullification and Impairment, Customs Unions, Tariff Negotiations

General Agreement on Tariffs and Trade (1994)

Article I *General Most-Favoured-Nation Treatment*

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

Article III *National Treatment on Internal Taxation and Regulation*

1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

…

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 affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

Article XI *General Elimination of Quantitative Restrictions*

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 by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

Article XX ***General Exceptions***

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

(*a*) necessary to protect public morals;

(*b*) necessary to protect human, animal or plant life or health;

(*c*) relating to the importations or exportations of gold or silver;

(*d*) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement,…for the protection of patents, trade marks and copyrights, and the prevention of deceptive practices;…

Article XXII ***Consultation***

1. Each contracting party shall accord sympathetic consideration to, and shall afford adequate opportunity for consultation regarding, such representations as may be made by another contracting party with respect to any matter affecting the operation of this Agreement.

2. The Contracting Parties may, at the request of a contracting party, consult with any contracting party or parties in respect of any matter for which it has not been possible to find a satisfactory solution through consultation under paragraph 1.

Article XXIII ***Nullification or Impairment***

1. If any contracting party should consider that any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded as the result of

(*a*) the failure of another contracting party to carry out its obligations under this Agreement, or

(*b*) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this Agreement, or

(*c*) the existence of any other situation,

the contracting party may, with a view to the satisfactory adjustment of the matter, make written representations or proposals to the other contracting party or parties which it considers to be concerned. Any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it.

2. If no satisfactory adjustment is effected between the contracting parties concerned within a reasonable time, or if the difficulty is of the type described in paragraph 1 (*c*) of this Article, the matter may be referred to the Contracting Parties. The Contracting Parties shall promptly investigate any matter so referred to them and shall make appropriate recommendations to the contracting parties which they consider to be concerned, or give a ruling on the matter, as appropriate. The Contracting Parties may consult with contracting parties, with the Economic and Social Council of the United Nations and with any appropriate inter-governmental organization in cases where they consider such consultation necessary. If the Contracting Parties consider that the circumstances are serious enough to justify such action, they may authorize a contracting party or parties to suspend the application to any other contracting party or parties of such concessions or other obligations under this Agreement as they determine to be appropriate in the circumstances. If the application to any contracting party of any concession or other obligation is in fact suspended, that contracting party shall then be free, not later than sixty days after such action is taken, to give written notice to the Executive Secretary_ to the Contracting Parties of its intention to withdraw from this Agreement and such withdrawal shall take effect upon the sixtieth day following the day on which such notice is received by him.

Article XXIV ***Territorial Application - Frontier Traffic - Customs Unions and Free-trade Areas***

… 4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; [with several provisos]

AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS, INCLUDING TRADE IN COUNTERFEIT GOODS [TRIPS AGREEMENT]

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 and 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 and paragraph 1(b) of Article 16 of the Rome Convention shall make a notification as foreseen in those provisions to the Council for Trade-Related Aspects of Intellectual Property Rights.

2. Members may avail themselves of the exceptions permitted under paragraph
1 above 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.

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 and 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 Agreement Establishing the WTO, provided that such agreements are notified to the Council for Trade-Related Aspects of Intellectual Property Rights and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members.

> Note 3. 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.

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

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

Whitney v. Robertson
124 U.S. 190, 8 S.Ct. 456
U.S. 1888
Jan 09, 1888

FIELD, J.

The plaintiffs are merchants, doing business in the city of New York; and in August, 1882, they imported a large quantity of 'centrifugal and molasses sugars,' the produce and manufacture of the island of San Domingo. These goods were similar in kind to sugars produced in the Hawaiian islands, which are admitted free of duty under the treaty with the king of those islands, and the act of congress passed to carry the treaty into effect. They were duly entered at the custom-house at the port of New York; the plaintiffs claiming that, by the treaty with the republic of San Domingo, the goods should be admitted on the same terms, that is, free of duty, as similar articles, the produce and manufacture of the Hawaiian islands. The defendant, who was at the time collector of the port, refused to allow this claim, treated the goods as dutiable articles under the acts of congress, and exacted duties on them to the amount of $21,936. The plaintiffs appealed from the collector's decision to the secretary of of the treasury, by whom the appeal was denied. They then paid, under protest, the duties exacted, and brought the oresent action to recover the amount. The complaint set forth the facts as to the importation of the goods; the claim of the plaintiffs that they should be admitted free of duty, because like articles from the Hawaiian islands were thus admitted; the refusal of the collector to allow the claim; the appeal from his decision to the secretary of the treasury, and its denial by him; and the payment, under protest, of the duties exacted; and concluded with a prayer for judgment for the amount. The defendant demurred to the complaint, the demurrer was sustained, and final judgment was entered in his favor; to review which the case is brought here.

The treaty with the king of the Hawaiian islands provides for the importation into the United States, free of duty, of various articles, the produce and manufacture of those islands, in consideration, among other things, of like exemption from duty on the importation into that country of sundry specified articles which are the produce and manufacture of the United States. 19 St. 200. The language of the first two articles of the treaty, which recite the reciprocal engagements of the two countries, declares that they are made in consideration 'of the rights and privileges,' and 'as an equivalent therefor,' which one concedes to the other. The plaintiffs rely for a like exemption of the sugars imported by them from San Domingo upon the ninth article of the treaty with the Dominican republic, which is as follows: 'No higher or other duty shall be imposed on the importation into the United States of any article, the growth, produce, or manufacture of the Dominican

republic, or of her fisheries; and no higher or other duty shall be imposed on the importation into the Dominican republic of any article, the growth, produce, or manufacture of the United States, or their fisheries, than are or shall be payable on the like articles, the growth, produce, or manufacture of any other foreign country, or its fisheries.' 15 St. 475.

In *Bartram* v. *Robertson*, (decided at the last term,) 122 U. S. 116, 7 Sup. Ct. Rep. 1115, we held that brown and unrefined sugars, the produce and manufacture of the island of St. Croix, which is part of the dominions of the king of Denmark, were not exempt from duty by force of the treaty with that country, because similar goods from the Hawaiian islands were thus exempt. The first article of the treaty with Denmark provided that the contracting parties should not grant 'any particular favor' to other nations in respect to commerce and navigation which should not immediately become common to the other party, who should 'enjoy the same freely if the concession were freely made, and upon allowing the same compensation if the concession were conditional.' 11 St. 719. The fourth article provided that no 'higher or other duties' should be imposed by either party on the importation of any article which is its produce or manufacture into the country of the other party than is payable on like articles, being the produce or manufacture of any other foreign country. And we held, in the case mentioned, that 'those stipulations, even if conceded to be self-executing by the way of a proviso or exception to the general law imposing the duties, do not cover concessions like those made to the Hawaiian islands for a valuable consideration. They were pledges of the two contracting parties, the United States and the king of Denmark, to each other, that, in the imposition of duties on goods imported into one of the countries which were the produce or manufacture of the other, there should be no discrimination against them in favor of goods of like character imported from any other country. They imposed an obligation upon both countries to avoid hostile legislation in that respect, but they were not intended to interfere with special arrangements with other countries, founded upon a concession of special privileges.'

The counsel for the plaintiffs meet this position by pointing to the omission in the treaty with the republic of San Domingo of the provision as to free concessions, and concessions upon compensation; contending that the omission precludes any concession, in respect of commerce and navigation, by our government to another country, without that concession being at once extended to San Domingo. We do not think that the absence of this provision changes the obligations of the United States. The ninth article of the treaty with that republic, in the clause quoted, is substantially like the fourth article in the treaty with the king of Denmark; and as we said of the latter, we may say of the former, that it is a pledge of the contracting parties that there shall be no discriminating legislation, against the importation of articles which are the growth, produce, or manufacture of their respective countries, in favor of articles of like character imported from any other

country. It has no greater extent. It was never designed to prevent special concessions, upon sufficient considerations, touching the importation of specific articles into the country of the other. It would require the clearest language to justify a conclusion that our government intended to preclude itself from such engagements with other countries, which might in the future be of the highest importance to its interests.

But, independently of considerations of this nature, there is another and complete answer to the pretensions of the plaintiffs. The act of congress under which the duties were collected, authorized their exaction. It is of general application, making no exception in favor of goods of any country. It was passed after the treaty with the Dominican republic, and, if there be any conflict between the stipulations of the treaty and the requirements of the law, the latter must control. A treaty is primarily a contract between two or more independent nations, and is so regarded by writers on public law. For the infraction of its provisions a remedy must be sought by the injured party through reclamations upon the other. When the stipulations are not self-executing, they can only be enforced pursuant to legislation to carry them into effect, and such legislation is as much subject to modification and repeal by congress as legislation upon any other subject. If the treaty contains stipulations which are self-executing, that is, require no legislation to make them operative, to that extent they have the force and effect of a legislative enactment. Congress may modify such provisions, so far as they bind the United States, or supersede them altogether. By the constitution, a treaty is placed on the same footing, and made of like obligation, with an act of legislation. Both are declared by that instrument to be the supreme law of the land, and no superior efficacy is given to either over the other. When the two relate to the same subject, the courts will always endeavor to construe them so as to give effect to both, if that can be done without violating the language of either; but, if the two are inconsistent, the one last in date will control the other: provided, always, the stipulation of the treaty on the subject is self-executing. If the country with which the treaty is made is dissatisfied with the action of the legislative department, it may present its complaint to the executive head of the government, and take such other measures as it may deem essential for the protection of its interests. The courts can afford no redress. Whether the complaining nation has just cause of complaint, or our country was justified in its legislation, are not matters for judicial cognizance. In *Taylor* v. *Morton*, 2 Curt. 454, 459, this subject was very elaborately considered at the circuit by Mr. Justice CURTIS, of this court, and he held that whether a treaty with a foreign sovereign had been violated by him; whether the consideration of a particular stipulation of the treaty had been voluntarily withdrawn by one party, so that it was no longer obligatory on the other; whether the views and acts of a foreign sovereign had given just occasion to the legislative department of our government to

withhold the execution of a promise contained in a treaty, or to act in direct contravention of such promise,-- were not judicial questions; that the power to determine these matters had not been confided to the judiciary, which has no suitable means to exercise it, but to the executive and legislative departments of our government; and that they belong to diplomacy and legislation, and not to the administration of the laws. And he justly observed, as a necessary consequence of these views, that, if the power to determine these matters is vested in congress, it is wholly immaterial to inquire whether by the act assailed it has departed from the treaty or not, or whether such departure was by accident or design, and, if the latter, whether the reasons were good or bad.

In these views we fully concur. It follows, therefore, that, when a law is clear in its provisions, its validity cannot be assailed before the courts for want of conformity to stipulations of a previous treaty not already executed. Considerations of that character belong to another department of the government. The duty of the courts is to construe and give effect to the latest expression of the sovereign will. In *Head-Money Cases*, 112 U. S. 580, 5 Sup. Ct. Rep. 247, it was objected to an act of congress that it violated provisions contained in treaties with foreign nations, but the court replied that, so far as the provisions of the act were in conflict with any treaty, they must prevail in all the courts of the country; and, after a full and elaborate consideration of the subject, it held that, 'so far as a treaty made by the United States with any foreign nation can be the subject of judicial cognizance in the courts of this country, it is subject to such acts as congress may pass for its enforcement, modification, or repeal.' *Judgment affirmed*.

CLASS 4, Wed. 14 June US and EU Unilateral Trade Measures

SECTION 301 OF THE 1974 TRADE ACT

Jean Heilman Grier, U.S. Dept. of Commerce

I. OVERVIEW OF SECTION 301

Section 301 of the Trade Act of 1974, as amended (19 U.S.C. ß 2411), is the principal statutory authority under which the United States may impose trade sanctions against foreign countries that maintain acts, policies and practices that violate, or deny U.S. rights or benefits under, trade agreements, or are unjustifiable, unreasonable or discriminatory and burden or restrict U.S. commerce.

II. SECTION 301 INVESTIGATION PROCEDURES

A. Initiation of Section 301 Investigation . A Section 301 investigation may be commenced in one of two ways:

1. An interested party files a petition with the U.S. Trade Representative (USTR) requesting an investigation of a particular practice of a foreign country (and USTR determines within 45 days that an investigation is appropriate); or

2. USTR self-initiates an investigation.

B. Publication of Initiation . USTR must publish its determination to initiate an investigation (or reasons for not initiating in the case of a petition) in the Federal Register .

C. Public Comments and Public Hearing . Where USTR initiates an investigation based on a petition, it must provide an opportunity for the public to comment, and hold a public hearing if requested.

D. Consultations with the Foreign Government . Upon initiation of an investigation, USTR must request consultations with the foreign government.

E. Formal Dispute Settlement . Where an investigation involves an alleged violation of a trade agreement (such as a World Trade Organization (WTO) agreement or the North American Free

Trade Agreement (NAFTA)), USTR must follow the dispute settlement provisions set out in that agreement.

F. Conclusion of Investigation . USTR must conclude its investigation and make (and publish in the Federal Register) a determination of whether the foreign practice is actionable under Section 301 within 18 months after initiation of an investigation involving a trade agreement that includes a dispute settlement mechanism, or 30 days after conclusion of dispute settlement procedures, whichever comes first (or 12 months after initiation of an investigation in all other cases).

III. SECTION 301 ACTION

A. Mandatory Retaliatory Action . Where USTR determines that a foreign government is violating or denying U.S. rights or benefits under a trade agreement, or its acts, policies or practices are unjustifiable and burden or restrict U.S. commerce, Section 301 requires retaliation unless an exception applies.

1. Unjustifiable acts, policies and practices are those that violate, or are inconsistent with, the international legal rights of the United States, including denial of national treatment or most-favored-nation (MFN) treatment to U.S. exports, the right of establishment to U.S. enterprises of protection of intellectual property rights.

2. The requirement for mandatory retaliation may be waived where:

a. a WTO dispute settlement panel has found that the act, policy or practice does not violate, or deny U.S. rights under, a trade agreement;

b. USTR finds that the foreign country is taking satisfactory measures to comply with a trade agreement;

c. the foreign country has agreed either to eliminate or phase out the act, policy or practice, or to a satisfactory solution;

d the foreign country has agreed to provide the United States with compensatory trade benefits;

e. USTR finds "in extraordinary cases" that retaliatory action, would adversely impact the U.S. economy substantially disproportionate to benefits of such action; or

f. the action would cause serious harm to the national security of the United States.

B. Discretionary Retaliatory Action . Where USTR determines that a particular act, policy or practice of a foreign country is unreasonable or discriminatory and burdens or restricts U.S. commerce, it has discretion as to whether to take retaliatory action.

1. An act, policy or practice is considered to be unreasonable if it is unfair and inequitable, even if it does not violate the international legal rights of the United States.

2. Practices considered unreasonable include:

a. denial of fair and equitable opportunities for the establishment of enterprises;

b. denial of adequate and effective protection of intellectual property rights, even if the foreign country is in compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS);

c. denial of fair and equitable market opportunities, including a foreign government's toleration of systematic anticompetitive activities by or among enterprises in the foreign country;

d. export targeting; and

e. denial of worker rights.

3. In determining whether a foreign practice is unreasonable, reciprocal opportunities in the United States for foreign nationals and firms must be considered.

4. Practices of a foreign country will not be treated as unreasonable if USTR determines that such practices are not inconsistent with the level of the country's economic development.

5. Discriminatory practices include acts, policies or practices that deny national or MFN treatment to U.S. goods, services or investment.

C. Scope of Authorized Retaliatory Action . Where USTR makes an affirmative determination that an act, policy or practice is actionable under Section 301, it may suspend or withdraw trade concessions, impose duties or other import restrictions, withdraw, limit or suspend benefits under the General System of Preferences or the Caribbean Basin Recovery Act and negotiate agreements to eliminate or phase out the act, policy or practice or provide compensation for trade distortion.

1. Retaliatory action may be taken against any goods or economic sector on a non-discriminatory basis or solely against the foreign country involved and without regard to whether such goods or economic sector were involved in the act, policy or practice that is the subject of the determination.

2. The retaliatory action must be devised to affect goods and services of the foreign country in an amount equivalent in value to the burden or restriction imposed on U.S. commerce by the foreign country.

3. Actions may be taken that are within the President's power with respect to trade in any goods or services, or with respect to any area of pertinent relations with the foreign country.

D. Development of Retaliatory Action . Where a determination is made to take retaliatory action, a damage estimate is prepared, assessing the level of damage to U.S. industry resulting from the foreign act, policy or practice, and proposed retaliation list is developed and published in the Federal Register , inviting public comments. A public hearing is normally held on the proposed list. Based on the public comments, a final retaliation list is prepared, published and implemented.

E. Implementation of Retaliatory Action . USTR must implement the retaliatory action within 30 days of the determination, except in certain circumstances, including where substantial progress is being made in negotiations with the foreign country; or a delay is necessary or desirable to obtain U.S. rights or a satisfactory solution.

F. Termination of Retaliatory Action . Any action taken pursuant to Section 301 terminates automatically after 4 years unless the petitioner or other representative of the domestic industry requests continuation.

G. Carousel Retaliation . Based on a May 2000 amendment of the Section 301 provisions, USTR is required to review retaliation lists and to revise retaliation, in whole or in part, 120 days after its initial effective date, and every 180 days thereafter, in cases where a WTO member has failed to implement a WTO Dispute Settlement Body recommendation in a dispute settlement proceeding.

IV. "SPECIAL 301" (Section 1303 of Omnibus Trade and Competitiveness Act of 1988)

A. Description . Section 301 is designed to enhance the United States' ability to negotiate improvements in foreign intellectual property regimes.

B. Annual Review . By April 30 of each year, USTR must identify foreign countries that deny "adequate and effective" protection of intellectual property rights (IPR) or "fair and equitable market access" to U.S. persons relying upon IPR protection.

1. USTR must designate as "priority foreign countries" those countries whose acts, policies or practices are "the most onerous or egregious" and have the greatest adverse impact on relevant U.S. products, and that have not entered into, or are not making significant progress in, negotiations to provide adequate and effective IPR protection..

2. Countries not designated as "priority foreign countries" may be placed on "priority watch" or "watch" lists if their intellectual property laws or enforcement practices are of major concern to the United States.

3. A country may be identified as denying adequate and effective IPR protection, even if it is in compliance with the TRIPS Agreement.

C. Investigations of Priority Countries . USTR must normally self-initiate Section 301 investigations of the priority foreign countries within 30 days of identification, unless USTR determines that

initiation of an investigation would be detrimental to U.S. economic interests. The procedural and other requirements of Section 301 authority generally apply to these cases, except that investigations must be concluded and determinations made on whether the measures are actionable within six months in cases where it does not consider a trade agreement to be involved (nine months are allowed for cases that are especially complicated or where the foreign government is taking appropriate action).

D. Affirmative Determination . An affirmative determination is treated as a Section 301 determination and the Section 301 provisions for retaliation apply.

V. "TELECOMMUNICATIONS 301" (Section 1377 of Omnibus Trade and Competitiveness Act of 1988)

A. Description . Its primary objective is to ensure that countries fulfill their commitments to open their telecommunications markets.

B. Annual Review of Trade Agreements . By March 31 of each year, USTR must review all trade agreements involving telecommunications products or services to determine whether the foreign country is in compliance with the terms of the agreement, or otherwise denies within the context of the agreement mutually advantageous market opportunities to U.S. telecommunications products and services.

C. 1377 Determination . An affirmative determination is treated as a violation of a trade agreement under Section 301, for which retaliation is mandatory and must be targeted at telecommunications products and services of the foreign country involved, unless actions against other economic sectors would be more effective in achieving compliance with the agreement.

VI. "SUPER 301"

A. Authority . The Super 301 process was initially mandated by the Omnibus Trade and Competitiveness Act of 1988 (for a two-year period). It was re-instituted by Executive Order in 1994 for a two-year period, and extended in 1995 to calendar years 1996 and 1997. On April 1999, Super 301 was again re-instituted by

Executive Order for the years of 1999-2001. It expired this year and has not been renewed.

B. Description . Super 301 required USTR to identify priority foreign country practices, the elimination of which were likely to have the most significant potential to increase U.S. exports. Within 90 days after identification of priority foreign practices, USTR was required to initiate Section 301 investigations of any priority practices identified in the report.

BACKGROUND ON SPECIAL 301

Pursuant to Section 182 of the Trade Act of 1974, as amended by the Omnibus Trade and Competitiveness Act of 1988 and the Uruguay Round Agreements Act (enacted in 1994) ("Special 301"), under Special 301 provisions, USTR must identify those countries that deny adequate and effective protection for IPR or deny fair and equitable market access for persons that rely on intellectual property protection. Countries that have the most onerous or egregious acts, policies, or practices and whose acts, policies, or practices have the greatest adverse impact (actual or potential) on the relevant U.S. products must be designated as "Priority Foreign Countries."

Priority Foreign Countries are potentially subject to an investigation under the Section 301 provisions of the Trade Act of 1974. USTR may not designate a country as a Priority Foreign Country if it is entering into good faith negotiations or making significant progress in bilateral or multilateral negotiations to provide adequate and effective protection of IPR.
USTR must decide whether to identify countries within 30 days after issuance of the annual National Trade Estimate Report. In addition, USTR may identify a trading partner as a Priority Foreign Country or remove such identification whenever warranted.

USTR has created a "Priority Watch List" and "Watch List" under Special 301 provisions. Placement of a trading partner on the Priority Watch List or Watch List indicates that particular problems exist in that country with respect to IPR protection, enforcement, or market access for persons relying on intellectual property. Countries placed on the Priority Watch List are the focus of increased bilateral attention concerning the problem areas.

Additionally, under Section 306, USTR monitors a country's compliance with bilateral intellectual property agreements that are the basis for resolving an investigation under Section 301. USTR may apply sanctions if a country fails to satisfactorily implement an agreement. The interagency Trade Policy Staff Committee, in advising USTR on the implementation of Special 301, obtains information from and holds consultations with the private sector, U.S. embassies, the United States' trading partners, the U.S. Congress, and the National Trade Estimates report, among other sources.

United States (Sections 301-310 of The Trade Act of 1974)
Dispute Settlement Body
WT/DS152/R (WTO DSB Panel Report, Dec. 22, 1999)

The EU requested consultations with the United States under Article XXII:1 of GATT and subsequently requested the establishment of a panel concerning the effect of the Section 301 process instituted by the Trade Act of 1974 (not Special 301). In its panel request, the EU claimed that a number of the procedures followed by the United States under the Trade Act (such as certain time limits and obligations upon the USTR to act) violated several provisions of the DSU and GATT, including inter alia the obligation of the United States under Article 23.2 DSU not to make determinations concerning the acts of other member states ``except through recourse to dispute settlement in accordance with the rules and procedures of [the DSU]" and to ``obtain DSB authorization" prior to suspending concessions or other obligations. The EU argued that Section 301 created an unacceptable ``sword of Damocles effect" and jeopardized the security and predictability of international trade. The United States responded that ``the U.S. Administration has carved out WTO covered situations from the general application of the Trade Act,(inter alia, through a Statement of Administrative Action (``SAA") submitted by the President to, and approved by, Congress." Under the SAA so approved ``it is the expectation of the Congress that future administrations would observe and apply the [undertakings given in the SAA]". One of these undertakings was to ``base any section 301 determination that there has been a violation or denial of US rights on the panel or Appellate Body findings adopted by the DSB."

In a report issued on December 22, 1999, the Panel agreed with the United States, finding that the language of the Trade Act, especially when taken along with the SAA, allows the existence of multilateral dispute resolution proceedings to be taken into account under the Section 301 procedure, and allows for determinations by the USTR to be postponed until after the exhaustion of DSU proceedings. The panel found that:

[T]he statutory language of Section 304 constitutes a serious threat that [Section 304] determinations contrary to Article 23.2(a) may be taken and, in the circumstances of this case, is prima facie inconsistent with Article 23.2(a) read in the light of Article 23.1. We then found, however, that this threat had been removed by the aggregate effect of SAA and the U.S. statements before this Panel in a way that also removes the prima facie inconsistency and fulfils the guarantees incumbent on the US under Article 23. In the analogy, the sign `No Trespassing (Trespassers may be shot on sight') was construed by us as going against the mutual promise made among the neighbors always

and exclusively to have recourse to the police and the courts of law in any case of alleged trespassing. Continuing with that analogy, we would find in this case that the farmer has added to the original sign which was erected for all to read another line stating: `In case of trespass by neighbours, however, immediate recourse to the police and the courts of law will be made.' We would hold (as we did in this case) that with this addition the agreement has been respected.

Strategy for the enforcement of intellectual property rights in third countries

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INTRODUCTION

Violations of intellectual property rights (IPR) continue to increase, having reached, in recent years, industrial proportions. This happens despite the fact that, by now, most of the WTO members have adopted legislation implementing minimum standards of IPR enforcement. It is, therefore, essential for the European Union to increasingly focus on vigorous and effective implementation of the enforcement legislation.

This Strategy intends to be a contribution to the improvement of the situation in third countries. It is a logical sequence of recent initiatives like the Enforcement Directive (1), that will harmonize enforcement legislation within the European Union, and the revision of the Customs Regulation (2), that provides action against counterfeit or pirated goods at the Community's border.

The purposes of the Strategy are to:

— Provide a long-term line of action for the Commission with the goal of achieving a significant reduction of the level of IPR violations in third countries;

— Describe, prioritise and coordinate the mechanisms available to the Commission services for achieving their goal (3);

— Inform right-holders and other entities concerned of the means and actions already available and to be implemented, and raise their awareness for the importance of their participation.

— Enhance cooperation with right-holders and other private entities concerned, by seeking their input on the identification of priorities and establishing public-private partnerships in fields like technical assistance, information to the public, etc.

This Strategy does **not** intend to:

— Impose unilateral solutions to the problem — It is clear that, ultimately, any proposed solutions will only be effective if they are prioritised and considered to be important by the recipient country. The Commission is ready to assist in the creation of such conditions.

— Propose a one-size-fits-all approach to promoting IPR enforcement — It will be necessary to have a flexible approach that takes into account different needs, level of development, membership or not of the World Trade Organisation (WTO), and main problems in terms of IPR (country of production, transit or consumption of infringing goods) of the countries in question.

The Commission is ready and willing to improve cooperation and to create synergies with countries sharing its concerns and facing similar problems. It

is, however, important that this strategy remains primarily focussed on positive and constructive efforts.

PROPOSED ACTIONS TO ADDRESS THE PROBLEM

1. Identifying the priority countries

It is important to identify a limited number of countries on which the efforts of the Commission in the framework of the present strategy should be concentrated (*cf.* Annex I, section 4). The human and financial resources allocated to the enforcement of IPR (1) being limited, it is unrealistic to pretend that our action can extend equally to all, or even most, of the countries where piracy and counterfeiting occur. Therefore, a mechanism to assess which are the most problematic countries/regions, or those where the action of the Community is most urgently required, will be an essential tool for the successful implementation of this strategy.

At the end of 2002, the Commission launched a survey to assess the situation in third countries regarding violations and enforcement of IPR (2). By identifying with more accuracy the problems, the survey provided a diagnostic that allowed the Commission to develop the present strategy. At the same time, it gave substantial information to help identify those countries on which the priorities should be focused and to which the bulk of our limited resources should be allocated.

Specific actions:

— Put in place a mechanism that will periodically conduct an exercise similar to the '*Survey on Enforcementof Intellectual Property Rights in Third Countries*', based on a questionnaire distributed to entities like Commission Delegations, Embassies of Member States, right-holders and associations, Chambers of Commerce, etc. Replies will be analysed and results made available to the public. Such results, in conjunction with other reliable sources of information available to the Commission (3), should be the basis for renewing the list of the priority countries for the subsequent period.

2. Multilateral/Bilateral agreements

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) (4) has a detailed chapter dedicated to the setting of minimum standards of IPR enforcement and technical cooperation. It also provides for a structure responsible for monitoring the implementation of the provisions of the Agreement and for consultation between Members, i.e. the TRIPs Council. Finally, it puts in place a dispute prevention and settlement mechanism. These characteristics make TRIPs one of the most adequate and effective instruments to address problems related to IPR violations

The numerous bilateral agreements established by the European Community contain a chapter dedicated to IP. This chapter usually establishes that a very high standard of protection of IP (including the enforcement thereof) must be achieved. Most agreements also include a clause allowing for technical cooperation in this field. These clauses must be carefully monitored

and effectively implemented, notably with respect to the more 'problematic' countries.
The institutional structures of these multilateral and bilateral agreements (TRIPs Council, Association Councils, the World Intellectual Property Organisation — WIPO, etc.) can be used to monitor and discuss legislation and enforcement problems from a very early stage. They allow for a structured political dialogue and can act as *fora* to submit new initiatives or to act as 'early warning' for arising problems, before there is a need to adopt stricter measures. It is also envisaged to make the enforcement clauses in future bilateral or bi-regional agreements more operational and to clearly define what the EU regards as the highest international standards in this area and what kind of efforts it expects from its trading partners.
Specific actions:
— The EU will consult other trading partners regarding the possibility of launching an initiative in the TRIPs Council highlighting the fact that the implementation of TRIPs requirements in national laws has proven to be insufficient to combat piracy and counterfeiting, and that the TRIPs Agreement itself has several shortcomings.
— For example, the TRIPs Council could consider in the future a number of actions to tackle the situation, including the extension of the obligation to make available customs measures to goods in transit and for export (1).
— Ensure a continued effort in the monitoring of the TRIPs compliance of legislation, in particular in the 'priority' countries.
— Revisit the approach to the IPR chapter of bilateral agreements, including the clarification and strengthening of the enforcement clauses. Although in designing the rules for each specific negotiation it is important to take into account the situation and the capacity of our partners, instruments such as the new EU Directive harmonising the enforcement of IPR within the Community, as well as the new customs' Regulation on counterfeit and pirated goods may constitute an important source of inspiration and a useful benchmark.
— Raise more systematically enforcement concerns at Summit meetings and in the Councils/Committees created in the framework of these bilateral agreements. In order to allow the Commission to obtain an effective reaction from its counterparts, it is essential that it receives credible and detailed information from right-holders, either directly or via the EC Delegation or the embassies of the Member States in the countries concerned.

3. **Political dialogue**
The Commission must make clear to its trading partners that effective protection of IP, at least at the level set in TRIPs, is absolutely essential, and that the first step for fighting piracy and counterfeiting is an adequate level of enforcement at the source, i.e. in the countries where these goods are produced and exported. The Commission will also emphasize that effective

enforcement is in most cases of mutual interest, be it for health or consumer reasons, or more broadly for these countries attractiveness to foreign investment. In its contacts, at different levels with the authorities of the countries concerned, the Commission must strongly convey the message that it is willing to assist them in raising the level of enforcement, but also that it will not refrain from using the instruments at its disposal in cases where deficient enforcement is harming its right-holders.

In addition, the Commission is increasing its cooperation with countries heavily affected by this type of practices and that share the Community's concerns, like Japan. This will result in an increased exchange of information and even in participation in joint initiatives in third countries. In addition, such 'joint ventures' should produce a rationalisation of resources between countries sharing identical concerns and pursuing parallel initiatives.

Finally, the EC Delegations in the 'problematic' countries can play an important role, by establishing close links with the local enforcement entities, with the Community right-holders operating in these countries and with the embassies of EU Member States and other countries concerned.

Specific actions:

— The message '*improve your enforcement*' should be repeated, as frequently and at as high a level as possible, in the Commission's contacts with authorities of the countries in question and in all appropriate *fora*, notably the WTO and WIPO. It must be perceived as a priority concern.

— This commitment to include IPR enforcement in the political dialogue is illustrated by the following initiatives:

— At the EU — Japan Summit of 2003, the Commission and Japan agreed to establish an improved dialogue in a number of areas, including IPR. An 'EU — Japan Joint Initiative for IPR Enforcement in Asia' was established, focusing on elements like **(a)** the close follow-up of the progress of Asian countries in the field; **(b)** coordinating technical assistance programmes and responsibilities; **(c)** enhancing EU-Japan efforts to raise awareness in the fight against piracy and counterfeiting and to promote the strengthening of IPR enforcement; **(d)** exploring the possibility to cooperate in other areas of IPR. The initiative is implemented by an Annual Work Plan containing specific activities.

— The Commission and China agreed in the margins of the 2003 EU-China Summit to hold, at least once a year, a 'EU-China Dialogue on Intellectual Property'. Among other issues, the discussions should focus on efforts to combat piracy and counterfeiting, institutional reforms, enforcement-related areas such as central and sub-central enforcement by customs, police, administrative and judiciary bodies, public awareness of consumers and right-holders. The first meeting took place in October 2004.

— Basic training will be provided to officials in priority Delegations so that they can offer a minimum of information to entities with enforcement problems. The idea is to create some networking between Commission

officials in Delegations and to establish closer teamwork between Delegations and the Headquarters. Teamwork will facilitate the compilation of information and the definition of targeted actions for the different countries and/or for a regional approach.

4. **Incentives/Technical cooperation**

Most of the countries with deficient enforcement will claim a lack of resources and the existence of more pressing priorities than protecting IP rights. IP enforcement is a complex and multi-disciplinary activity. It involves drafting legislation, training judges, police forces, customs officials and other experts, setting up agencies or task-forces, public awareness raising, etc. Most of these needs can be, and to some extent already have been, addressed by the Commission via technical cooperation programmes, but it is important to do more and better.

Technical assistance is an activity favoured by the EU for its contribution towards poverty alleviation and development. It is thus important to show that adequate IPR enforcement can contribute to this goal by making a link with investment opportunities, transfer of technology and know-how, protection of traditional knowledge, improvement of health and safety standards, etc.

It will be necessary to have a flexible approach that takes into account the recipient country's different needs, level of development, membership or not of the World Trade Organisation (WTO), and main problems in terms of IPR (country of production, transit or consumption of fake goods). Any cooperation programmes will only be effective if they are prioritised and indeed felt as important in the recipient country.

It is also relevant to share information and to ensure a minimum level of synergy between the main providers of technical assistance, such as WIPO, the World Customs Organisation (WCO), the Member States and third countries like Japan, the US and others.

Finally, the following difficulties must be stressed:

(a) In most cases, technical cooperation is 'demand driven', i.e. it requires a request by the beneficiary of the action. It is important to turn it into a 'dialogue driven' request, by discussing its importance and benefits for the recipient.

(b) It is a mid to long-term solution, with few immediate results. However, the present strategy is a long term one, and adequate enforcement is a goal that will not be achieved only by immediate actions, in particular in the case of least-developed countries, not yet bound by TRIPs requirements.

(c) Implementing the programmes implies a complex administrative process. This is why further strengthening coordination between the Commission services responsible for the different aspects of IPR enforcement and between the Commission and third parties is an essential component of the present strategy.

Specific actions:
— Ensure that, at least, the countries identified as priorities are given the option to include intellectual property in the trade-related technical assistance programmes or to obtain specific IP programmes.
— In particular, the Commission would like to extend technical assistance to Latin America, since it is a region where enforcement can certainly be improved and where no programme is in place.
— There are a number of programmes that cover IPR. Some, like ECAP (1) I and II, for the ASEAN countries, or even the recently concluded EU-China IPR programme are specifically destined to provide assistance on IPR. Others are generally designed to cover trade related issues, but may include IPR among their objectives — WTO II (2) and Small Project Facility (3), for China; technical cooperation programmes under the framework of the Cotonou Agreement for the African, Caribbean and Pacific (ACP) countries; or the CARDS (4) programme, for the countries of the Balkans. The Commission will ensure that the component of IPR enforcement is adequately covered by these programmes.
— In the case of 'production' countries, the focus in any cooperation programmes must shift from assistance in drafting legislation to a more enforcement-oriented strategy, including training programmes for judges, police, and customs.
— It must be pointed out that this practice is already being successfully implemented in the specific field of customs (DG TAXUD). There are a number of customs cooperation agreements that, *inter alia*, cover an essential tool of IPR enforcement (customs controls of fake goods). These agreements with countries like India and China (a new one is soon to be concluded) produce positive results in terms of training and of passing on our experience and methods to these countries. Furthermore, they illustrate how one can build on the existing TRIPs requirements (*cf*. the control of exports and goods in transit, in addition to the control of imports). It is likely that a similar agreement may be established with Japan still in
2004.
— Exchange ideas and information with other key providers of technical cooperation, like WIPO, the US, Japan and certain EU Member States, with the aim of avoiding duplication of efforts and sharing of best-practices.
— Improve the dialogue mechanisms with: **(a)** the WCO (under the coordination of DG TAXUD) to assess the compatibility of their technical assistance with our positions and the complementarity with our programmes; **(b)** WIPO and other providers of assistance (the European Patent Office, the Office of the EU Trademarks and Designs, etc.) to share information and to better coordinate strategies.
— Technical cooperation is also an important element of the TRIPs Agreement (Article 67) and it 'fits' into the objectives of the Doha Development Agenda. It can be considered to take an enforcement-oriented

initiative in this framework.

(1) EC-ASEAN IPR Programme comprises a regional and a national component and covers all areas of IPR. It has a value of EUR 5 million. An additional EUR 2 million is planned, to take account of the inclusion of Laos, Cambodia and Vietnam. The project started in 2000 and has a duration of 5 years
(2) WTO II is the largest WTO related support programme in China, with a value of EUR 15 million over 5 years — to which China has indicated willingness to contribute with an additional 30 %. A chapter on IPR will be proposed. The programme should be launched before the end of 2004.
(3) Project designed to support small initiatives in China. With a total value of EUR 9,6 million, and a duration of 5 years, the initiatives are demand-driven, but the inclusion of IPR related projects will be actively encouraged.
(4) In the framework of the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme for the Western Balkans, a project called 'Industrial and Intellectual Property Rights' was launched in July 2003. The project will have a duration of 36 months and a value of EUR 2,25 million.

5. **Dispute Settlement/Sanctions**

No rule can be really effective without the threat of a sanction. Countries where IP violations are
systematic, and where no government action to address the problem is effectively taken, could be publicly identified. As a last resort, consideration should be given to resorting to dispute settlement mechanisms provided for in multilateral and bilateral agreements.
The existing Trade Barriers Regulation (TBR) mechanism (1) could be a starting-point. TBR is a legal instrument that gives the right to Community enterprises and industries to lodge a complaint, which obliges the Commission to investigate and evaluate whether there is evidence of violation of international trade rules resulting in adverse trade effects. The result is that the procedure will lead to either a mutually agreed solution to the problem or recourse to dispute settlement.
The TBR has a broad scope of application, covering not only goods but also, to some extent, intellectual property rights and services, when the violation of rules concerning these rights has an impact on trade between the EC and a third country.
Resort to other trade related mechanisms could also be considered. For instance, the EU includes similar instruments in an increasing number of bilateral agreements that will be triggered in cases of non-compliance with the required high(est) standards of IP protection.
Deficient enforcement derives more frequently from the way the rules are (not) *de facto* implemented by the competent authorities than from an absence of legislation or a blatant contradiction of legislation with TRIPs

requirements. However, when such deficiencies become systemic, they can substantiate a dispute settlement case.
Specific actions:
— Remind right-holders of the possibility to make use of the TBR mechanism in cases of evidence of violation of TRIPs or of the high(est) standards as agreed in bilateral agreements between the EC and third countries. This mechanism is launched by the lodging of a complaint.
— The Commission is ready, in clearly justified cases, to make *ex officio* use of the WTO dispute settlement mechanism and of the similar dispute settlement tools included in our bilateral agreements in case of non-compliance with the mutually accepted standards of IP protection.
— Consider other mechanisms which could be used to reduce the level of IPR violations in third
countries.
6. **Creation of public-private partnerships**
There are numerous companies and associations which have been active in the fight against piracy/counterfeiting for many years. They constitute an invaluable source of information, but also a key partner for any awareness raising initiatives. Some of these entities are already present, and very active, in most problematic countries.

Other than the specific actions now proposed, there are within the Commission other examples of initiatives to create public-private partnerships that are directly or indirectly linked with IPR enforcement. One of these projects involved the creation of Innovation Relay Centres, to support companies dealing with transfers of technology (1). This project includes people with extensive experience in the IPR area (licensing, transfer of IP rights, etc) and could be used to collect information about enforcement problems in third countries. So far the network only covers the EU, but consideration is being given to extending it to third countries. There is a pilot project with an office in Chile.
There is also already in place the 'IPR Help-Desk' (2), a project sponsored by the Commission to support creativity and innovation. The purpose of the Help-Desk is not to handle complaints but to provide information to the EU industry. It may therefore give guidance to companies facing violations of their rights in third countries.
Finally, the Commission has a long experience of involving private operators in their seminars and training programmes covering, in particular, border enforcement of IPR.
Specific actions:
— Support the creation of local IP networks involving companies, associations and chambers of
commerce. This practice is already being implemented in certain key countries and will be actively supported by DG TRADE.

— Improve cooperation with companies and associations that are active in the fight against piracy/counterfeiting, *inter alia* by exchanging information about future initiatives and ensuring the cross-participation of experts from the Commission and from private entities in events organised by the other party.

7. **Awareness raising/Drawing on our own experience**

Providing better information to the public is another very relevant dimension of the Strategy. This can be divided into the following components:

(a) Raising the awareness of users/consumers in third countries. This must be done from two perspectives:

(a) to promote the benefits of IPR in terms of promotion of creativity, investment, transfer of technology, protection of traditions and quality; **(b)** to inform about the dangers of IPR violations to public health, consumer protection, public security, etc.

(b) Raising the awareness of right-holders. Again from two different perspectives: **(a)** the risks incurred by trading in certain countries where IPR enforcement is ineffective and the minimum precautions that must be adopted, like registering the IP right in those countries (frequently, small and medium sized companies do not even apply for the protection of their intellectual property in third countries where they are producing or selling their goods); **(b)** the need to use the means available in these third countries to enforce their rights. Countries which are members of the WTO (with the exception of least developed countries) must have implemented minimum standards of IP protection and enforcement since 2000. It is clear that the first steps to protect and enforce IPRs must be taken by the right-holders themselves, and that they must use, to the maximum extent, the available mechanisms before being entitled to legitimately complain about the effectiveness of such protection and enforcement.

Specific actions:

— The Commission does not have the resources to pursue alone extensive awareness raising campaigns in third countries. However, this activity could be implemented by some of the abovementioned means, i.e. by inclusion in existing technical cooperation programmes and by public-private partnerships.

— The Commission services sponsored the drafting of a 'Guidebook on Enforcement of Intellectual Property Rights'. This Guidebook is mainly intended to assist public authorities of developing and least developed countries in their efforts to put in place systems and procedures for the effective enforcement of IPR. In particular, the guidebook considers the most common difficulties confronting those countries in the enforcement of IPR and provides guidance on how to achieve effective and long-lasting protection for such rights. The guidebook identifies useful resources which may be of assistance to authorities and right-holders facing difficulties.

— The Guidebook will be publicly available through the Commission website.

8. **Institutional cooperation**

The Commission services responsible for the different aspects of IPR enforcement will step up their coordination and cooperation with a view to enhancing the role of the Commission. Without creating an additional layer of bureaucracy, it is necessary to:

(a) further improve information exchange and coordination between the services in charge of the different aspects of IPR enforcement;

(b) simplify the identification and the access of external entities (right-holders, third country authorities, etc.) to the service responsible for the specific issue concerning them.

Specific actions:

— Inter-service meetings will be regularly organised to follow up the initiatives being implemented in the framework of the present strategy and to discuss the results obtained, as well as the inclusion of new initiatives. Furthermore, increased cooperation between the services involved with technical assistance issues will be introduced in order to promote IPR enforcement-related assistance to relevant third countries.

— In order to help third parties understand the distribution of tasks among the different Commission services:

— A new Commission webpage will be created, presenting: **(a)** the existing legislation to enforce IPR; **(b)** a *vademecum* on enforcement, including the Commission contact points for the various types of IP rights and aspects of their enforcement, as well as links to the various web-pages of the different services dealing with it.

— Cross-links will be inserted in the existing web-pages of each service dealing with certain aspects of IPR or certain sectors.

— Ensure coordination with other Commission initiatives linked with IPR, such as the Innovation Relay Centres and the IPR Help-Desk, and their effective contribution to the objective of the present Strategy by collecting and distributing information *vis-à-vis* the private sector.

BACKGROUND

1. **What is the problem?**

The TRIPs Agreement establishes for the first time a single, comprehensive, multilateral set of rules covering all kinds of IPR. It contains also a detailed chapter setting minimum standards of IPR enforcement to be adopted by all members of the WTO.

However, despite the fact that, by now, most of the WTO members have adopted legislation implementing such minimum standards (1), the levels of piracy and counterfeiting continue to increase every year. These activities have, in recent years, assumed industrial proportions, because they offer considerable profit prospects with often a limited risk for the perpetrators. It has thus become clearly insufficient to limit the efforts of the EC to merely

monitoring the creation of general legislative frameworks in WTO member countries. It is essential that the EC increasingly focuses on vigorous and effective implementation of the enforcement legislation.
Within the Community and at its external borders there have been a number of important initiatives in recent years. As long ago as 1994 the EC adopted the so-called Customs Regulation (Regulation (EC) No 3295/94), allowing border control of imports of fake goods. Later, in 1998, the Commission issued its Green Paper on Combating Counterfeiting and Piracy in the Single Market. As a result of responses to the Green Paper, the Commission presented an Action Plan,
on 30 November 2000. This Action Plan is materialising, namely in the form of a Directive harmonising the enforcement of intellectual property rights within the Community, of a Regulation improving the mechanisms for customs action against counterfeit or pirated goods set by the previous Customs Regulation, the extending of Europol's powers to cover piracy and counterfeiting and a study on a methodology for the collecting, analysing and comparing of data on counterfeiting and piracy (2). In addition, the Presidency Conclusions of the Spring European Council 2003 (3) made a strong call for the increase in the fight against piracy and counterfeiting. As a consequence, the Commission (DG JAI) intends to launch a legislative initiative in 2004 in the form of a proposal for a Council Framework Decision on approximation of national legislation and sanctions on counterfeiting and piracy.
The situation is, however, different outside the borders of the Community. The internal instruments available to Community right-holders in the case of violations of their rights within the Community or in the case of imports of fake goods into the EU are not usable when these violations occur in third countries and the resulting goods are either consumed domestically or exported to other third countries. Although such violations occur outside, they directly affect Community right-holders.

2. **Why and how much does it matter? To whom?**

(a) *European Community*

Violation of IPR, which is reflected in the presence on the market of increasing volumes of pirated and counterfeit goods, has a very negative impact in a number of different areas. The Community, being a market that traditionally invests heavily in IP-protected goods and services and receives considerable added-value for this effort, is particularly affected by poor enforcement of IP, even when it takes place in third countries, and even if the pirated/counterfeit goods or services are not destined for the Community market. These are some of the adverse effects of IP violations:
Economic and social: Deprives right-holders of the revenue from their investment in R&D, marketing, creative effort, quality control, etc. Negatively affects market-share, sales volume, reputation, employment and ultimately the viability of certain IP-based activities/companies. High levels

of IPR violations also discourage foreign investment and transfer of technology.

Health and consumer protection: Pirated and counterfeit goods are usually produced by anonymous entities that pay no heed to health, safety and quality requirements and provide no after-sales assistance, guarantees, operating instructions, etc… Illustrating this problem are growing seizures of fake medications, food (and even bottled water), car and plane parts, electrical appliances and toys.

Public order and security: A growing concern in recent years is the increased involvement of criminal organizations and sometimes even of terrorist groups in major international trafficking of counterfeit and pirated goods. This is explained by the particularly lucrative nature of these activities and by the lower risk (1) compared with other lucrative criminal activities. The scale of the problem and the sums of money involved render the situation regarding piracy as complex to tackle as drug trafficking or money laundering. Europol, Interpol and a number of police forces in the Community have created departments dealing specifically with it.

Fiscal: Being an illegal and clandestine practice by nature, and having lower prices it frequently deprives the state from tax revenue (VAT, revenue taxes, customs duties). This issue is particularly sensitive in countries where there are economic sectors under strict state control, like tobacco, alcoholic drinks, fuel, etc.

(b) *Third countries*

Why should third countries with little tradition in the IPR field, a restricted number of right-holders, and sometimes with a significant share of its industry and commerce benefiting from the violations, care?

The reply to this question is not entirely different from the one given for the Community (see above). The consequences of IPR violations in terms of consumer and health protection, organised crime and loss of fiscal revenue are relatively obvious and directly felt both in the Community and in the third countries where such violations predominantly occur.

Consequently, these countries (should) have an immediate interest in combating piracy and counterfeiting.

Regarding the first point however (economic and social consequences), some will say that by enforcing the protection of IP rights held by Community companies, third countries will not obtain any direct benefit. It would appear, on the contrary, that they are using their resources to protect the investment of foreign entities (an argument frequently raised by certain countries). To counter this reasoning, the EC must get across the message that effective enforcement of IP rights (even if these belong to third parties) is an essential tool to attract foreign investment and the transfer of technology and know-how, as well as to protect local right-holders in developing and least-developed countries who are already suffering the misappropriation of their

intellectual property (2). It is a matter of good governance and international credibility, not to mention the need to comply with WTO and other international and bilateral commitments. In the mid-to-long term, it will also encourage domestic authors, inventors and investors and contribute to the development of these countries.

Under-estimating the value of intellectual property rights contributes to ineffective enforcement. To enhance this aspect of the intellectual property rights system, it would be useful for some (fast) developing countries to assess the value of the industries based primarily on intellectual property rights (3). This could lead to an appreciation of the value of intellectual property rights in terms of a country's economic environment, as well as in respect to economic, social and cultural growth and development.

There are, however, recent examples of countries where the emergence of a competitive and increasingly sophisticated economy is making evident the need to efficiently protect IP against domestic and external violations.

In some of the most 'problematic' countries the authorities appear to be fully aware of the importance of IPR for the development of the country and domestic right-holders demand enforcement of IPR as rigorously as foreign rightholders.

The problem is that the piracy/counterfeiting industry is an important element of their economy. It is therefore clear that there is a broader picture which cannot be tackled merely under the IP angle. Only a comprehensive policy involving authorities at national, regional and local level can provide a solution.

3. **Which IP rights are violated and which sectors are most affected?**

Most of them. One frequent misconception is that piracy and counterfeiting mainly affect some luxury, sports and clothing brands, music and software CDs/DVDs, and little else. The reality is that virtually every IP is being violated on a considerable scale and that the variety of fake products ranges from cereal boxes to plants and seeds, from aeroplane spare parts to sunglasses, from cigarettes to medications, from AA batteries to entire petrol stations. Big software producers are as likely to be harmed as small makers of a certain type of tea. The annual statistics published by the Commission's customs services regarding the number and the nature of seized pirated and counterfeit goods originating from the dimension and the growth of the problem (1).

The Commission considers that the vast majority of the problems affecting holders of the different types of intellectual property rights are common and consequently, are most effectively addressed by an integrated strategy. The strategy now proposed aims at improving enforcement against violations of all kinds of IP (copyright, trademarks, geographical indications, patents, designs, etc.).

4. **How to define the 'priority' countries?**

There are several different criteria to define the most problematic countries

in terms of enforcement of IPR (2). These can be split into: **(a)** source countries; **(b)** transit countries, and **(c)** target countries. For each of these groups of countries, the type of measures most adequate to address the situation will differ.

(a) *Source countries*

These are the countries where production of pirated and counterfeit goods, both for domestic consumption and for export, reaches worrying dimensions. In cases of digital piracy via the internet, the origin of the IPR violation can be particularly difficult to detect.

In these countries it is particularly important to improve the effectiveness and the coordination of the police, the courts, the customs and the administration in general. It is also essential to ensure that the legal framework provides for deterrent
sanctions.

(b) *Transit countries*

For the full picture, one should, however, not focus exclusively on countries violating IPR due to the massive production of counterfeited products occurring in their territories, but also on those often acting as a hub. This category includes countries appearing as major places of origin of fake goods seized in the Community, the problem occurring mainly because of the flow of fake products in transit and not because of domestic production of such goods. The large volume of goods originating in these countries is nevertheless indicative of deficient enforcement, at least at the level of border controls. Organised crime networks will take advantage of such weaknesses to establish different traffic routes, hiding the real origin of the goods.

(c) *Target countries*

It is also important to consider, in any strategy to reduce the violations of IPR, the countries identified as the main final destinations of exports of fake goods or serving primarily as a market for such products.

Substantial volumes of sales of fake goods occur in almost all countries. The difficulty of defining countries that are main markets for pirated goods is that it is a very widespread problem, albeit for a variety of (sometimes contradictory) reasons: because they are too poor to buy IP-protected protects, because such practice is accepted or at least not condemned, because they produce them in large quantities, because there is sometimes no way to distinguish between real and fake, or because fakes are cheaper. This is why it is necessary to concentrate resources on the main markets of the legitimate Community right-holders most affected by IPR violations.

Dealing with the consumption of pirated and counterfeit goods requires an effort in terms of building up public awareness about the negative impact and the risks of such practice. It also requires more effective customs controls of imported goods and a more effective reaction by the police and courts against those networks and individuals involved

in large scale trading in such goods.

5. **What is the situation in the Community?**

Generally speaking, the Community and its Member States are acknowledged for protecting and enforcing IPR to very high standards, as the *acquis*, and in particular the recent efforts described in point 1 above, can demonstrate. Also in practical terms, reports like the one published annually by DG TAXUD (1) give a clear idea of the results achieved by the authorities of each Member State in terms of seizures of fake goods at the borders. However, within the Community the level of enforcement is different among Member States. Some Member States still need to do more towards improving the current situation and cutting down remaining production and sale of pirated or counterfeit goods. The new Directive harmonising the enforcement of intellectual property rights within the Community will help to improve the situation.

6. **Who are the key actors of IPR enforcement in the Commission?**

Different Directorates-General (DGs) of the Commission are competent as regards the distinct aspects of IPR enforcement. In simple terms:

— DG Trade handles the external dimension (multilateral and bilateral) of the issue, i.e. enforcement in third countries.

It also represents the European Community at the WTO and notably at the TRIPs Council.

— DG Internal Market (MARKT) is responsible for EU intellectual and industrial property policy and legislation and represents and leads negotiations on behalf of the European Community in various committees in WIPO. DG MARKT was the author of the above mentioned Enforcement Directive.

— DG Agriculture (AGRI) is responsible for internal and external EU policy and for EU legislation concerning geographical indications in agriculture and leads negotiations in these matters

— DG Taxation and Customs Union (TAXUD) regulates the enforcement of IPR at the Community's external borders.

DG TAXUD drafted the above mentioned Customs Regulation.

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(1) http://europa.eu.int/comm/taxation_customs/customs/counterfeit_piracy/index_en.htm

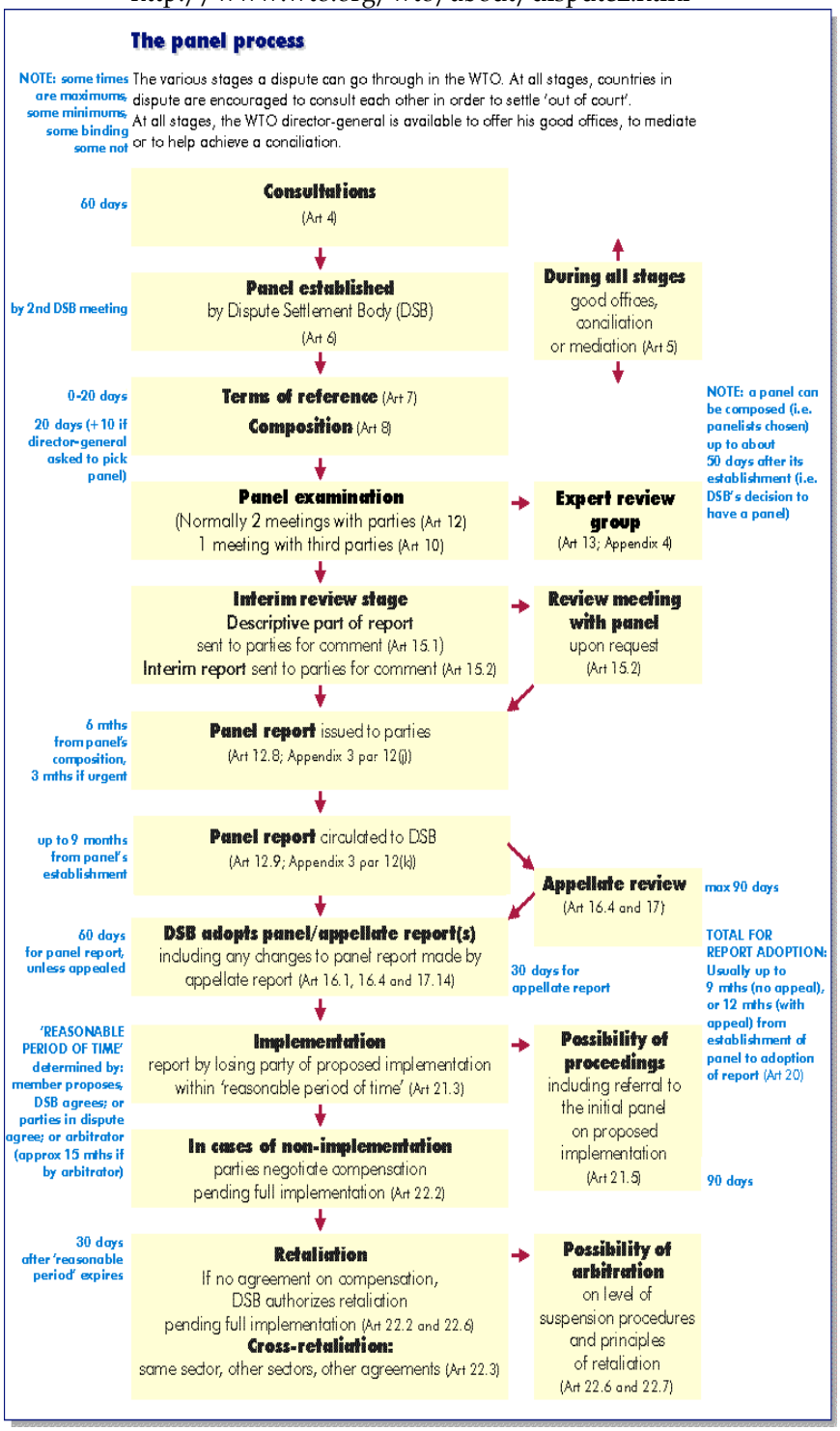
— DG Justice and Home Affairs (JAI) has shared regulatory responsibilities when IPR enforcement is linked with law enforcement both within and outside the Community. Specific 'field' operations in the same area will be handled by the European Anti-Fraud Office (OLAF).

— DG Development (DEV) and DG External Relations (RELEX) coordinate, both centrally and via the EU Delegations in third countries, Community assistance to developing countries and least-developed countries, including in the area of Trade, while the Europe Aid Cooperation Office (AIDCO) manages

any technical assistance programmes.
— Finally, DG Enterprise (ENTR), as manager of the IPR Help Desk (1), and with its close contacts with the industry (i.e. with a very important number of IP right-holders), is a key partner.
This is a very crucial point for the efficacy of the present Strategy. DG TRADE and other DGs with external responsibilities have an important and well defined role in terms of improving the enforcement of IPR in third countries. However, the most 'operational' responsibilities of the fight against piracy and counterfeiting lie with Member States or with other DGs. The most visible and/or immediate results in this fight will always be achieved by the customs authorities, the police, national courts, the harmonisation of laws and procedures and the creation of information exchange mechanisms at Community level. In these (mainly domestic) areas DG TRADE can only provide a limited contribution. The situation is, however, different with regard to enforcement in third countries. In this case, DG TRADE and the Commission
services with external responsibilities in these matters, with the cooperation of the EC Delegations in third countries, can certainly play a key role in achieving the implementation of the tasks proposed in the present Strategy.

THE WTO DISPUTE SETTLEMENT PROCESS: A FLOWCHART

http://www.wto.org/wto/about/dispute2.html



TRIPS Article 64 ***Dispute Settlement***

1. The provisions of Articles XXII and XXIII of the General Agreement on Tariffs and Trade 1994 as elaborated and applied by the Understanding on Rules and Procedures Governing the Settlement of Disputes shall apply to consultations and the settlement of disputes under this Agreement except as otherwise specifically provided herein.

2. Sub-paragraphs XXIII:1(b) and XXIII:1(c) of the General Agreement on Tariffs and Trade 1994 shall not apply to the settlement of disputes under this Agreement for a period of five years from the entry into force of the Agreement establishing the World Trade Organization.

3. During the time period referred to in paragraph 2, the TRIPS Council shall examine the scope and modalities for Article XXIII:1(b) and Article XXIII:1(c)-type complaints made pursuant to this Agreement, and submit its recommendations to the Ministerial Conference for approval. Any decision of the Ministerial Conference to approve such recommendations or to extend the
period in paragraph 2 shall be made only by consensus, and approved recommendations shall be effective for all Members without further formal acceptance process.

PART VI: TRANSITIONAL ARRANGEMENTS

Article 65 ***Transitional Arrangements***

1. Subject to the provisions of paragraphs 2, 3 and 4 below, no Member shall be obliged to apply the provisions of this Agreement before the expiry of a general period of one year following the date of entry into force of the Agreement Establishing the WTO.

2. Any developing country Member is entitled to delay for a further period of four years the date of application, as defined in paragraph 1 above, of the provisions of this Agreement other than Articles 3, 4 and 5 of Part I.

3. Any other Member which is in the process of transformation from a centrally- planned into a market, free-enterprise economy and which is undertaking structural reform of its intellectual property system and facing special problems in the preparation and implementation of intellectual property laws, may also benefit from a period of delay as foreseen in paragraph 2 above.

4. To the extent that a developing country Member is obliged by this Agreement to extend product patent protection to areas of technology not so

protectable in its territory on the general date of application of this Agreement for that Member, as defined in paragraph 2 above, it may delay the application of the provisions on product patents of Section 5 of Part II of this Agreement to such areas of technology for an additional period of five years.

5. Any Member availing itself of a transitional period under paragraphs 1, 2, 3 or 4 above shall ensure that any changes in its domestic laws, regulations and practice made during that period do not result in a lesser degree of consistency with the provisions of this Agreement.

Article 66 ***Least-Developed Country Members***

1. In view of their special needs and requirements, their economic, financial and administrative constraints, and their need for flexibility to create a viable technological base, least- developed country Members shall not be required to apply the provisions of this Agreement, other than Articles 3, 4 and 5, for a period of 10 years from the date of application as defined under paragraph 1 of Article 65 above. The Council shall, upon duly motivated request by a least-developed country Member, accord extensions of this period.

2. Developed country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base.

Article 67 ***Technical Cooperation***

In order to facilitate the implementation of this Agreement, developed country Members shall provide, on request and on mutually agreed terms and conditions, technical and financial cooperation in favour of developing and least-developed country Members. Such cooperation shall include assistance in the preparation of domestic legislation on the protection and enforcement of intellectual property rights as well as on the prevention of their abuse, and shall include support regarding the establishment or reinforcement of domestic offices and agencies relevant to these matters, including the training of personnel.

PART VII: INSTITUTIONAL ARRANGEMENTS; FINAL PROVISIONS

Article 68 *Council for Trade-Related Aspects of Intellectual Property Rights*

The Council for Trade-Related Aspects of Intellectual Property Rights shall monitor the operation of this Agreement and, in particular, Members' compliance with their obligations hereunder, and shall afford Members the opportunity of consulting on matters relating to the trade-related aspects of intellectual property rights. It shall carry out such other responsibilities as assigned to it by the Members, and it shall, in particular, provide any assistance requested by them in the context of dispute settlement procedures. In carrying out its functions, the Council may consult with and seek information from any source it deems appropriate. In consultation with the World Intellectual Property Organization, the Council shall seek to establish, within one year of its first meeting, appropriate arrangements for cooperation with bodies of that Organization.

Article 69 *International Cooperation*

Members agree to cooperate with each other with a view to eliminating international trade in goods infringing intellectual property rights. For this purpose, they shall establish and notify contact points in their national administrations and be ready to exchange information on trade in infringing goods. They shall, in particular, promote the exchange of information and cooperation between customs authorities with regard to trade in counterfeit trademark goods and pirated copyright goods.

Article 71 *Review and Amendment*

1. The Council for Trade-Related Aspects of Intellectual Property Rights shall review the implementation of this Agreement after the expiration of the transitional period referred to in paragraph 2 of Article 65 above. The Council shall, having regard to the experience gained in its implementation, review it two years after that date, and at identical intervals thereafter. The Council may also undertake reviews in the light of any relevant new developments which might warrant modification or amendment of this Agreement.

2. Amendments merely serving the purpose of adjusting to higher levels of protection of intellectual property rights achieved, and in force, in other multilateral agreements and accepted under those agreements by all Members of the WTO may be referred to the Ministerial Conference for action in accordance with Article X, paragraph 6, of the Agreement Establishing the WTO on the basis of a consensus proposal from the Council for Trade-Related Aspects of Intellectual Property Rights.

Article 72 *Reservations*

Reservations may not be entered in respect of any of the provisions of this Agreement without the consent of the other Members.

WTO AGREEMENTS ANNEX 2 [THE DSU]

UNDERSTANDING ON RULES AND PROCEDURES GOVERNING THE SETTLEMENT OF DISPUTES
http://www.wto.org/english/docs_e/legal_e/28-dsu.wpf

Members hereby *agree* as follows:

Article 3

General Provisions

1.
Members affirm their adherence to the principles for the management of disputes heretofore applied under Articles XXII and XXIII of GATT 1947, and the rules and procedures as further elaborated and modified herein.

2.
The dispute settlement system of the WTO is a central element in providing security and predictability to the multilateral trading system. The Members recognize that it serves to preserve the rights and obligations of Members under the covered agreements, and to clarify the existing provisions of those agreements in accordance with customary rules of interpretation of public international law. Recommendations and rulings of the DSB cannot add to or diminish the rights and obligations provided in the covered agreements.

3.
The prompt settlement of situations in which a Member considers that any benefits accruing to it directly or indirectly under the covered agreements are being impaired by measures taken by another Member is essential to the effective functioning of the WTO and the maintenance of a proper balance between the rights and obligations of Members.

4.
Recommendations or rulings made by the DSB shall be aimed at achieving a satisfactory settlement of the matter in accordance with the rights and obligations under this Understanding and under the covered agreements.

5.
All solutions to matters formally raised under the consultation and dispute settlement provisions of the covered agreements, including arbitration awards, shall be consistent with those agreements and shall not nullify or impair benefits

accruing to any Member under those agreements, nor impede the attainment of any objective of those agreements.

6.
Mutually agreed solutions to matters formally raised under the consultation and dispute settlement provisions of the covered agreements shall be notified to the DSB and the relevant Councils and Committees, where any Member may raise any point relating thereto.

7.
Before bringing a case, a Member shall exercise its judgement as to whether action under these procedures would be fruitful. The aim of the dispute settlement mechanism is to secure a positive solution to a dispute. A solution mutually acceptable to the parties to a dispute and consistent with the covered agreements is clearly to be preferred. In the absence of a mutually agreed solution, the first objective of the dispute settlement mechanism is usually to secure the withdrawal of the measures concerned if these are found to be inconsistent with the provisions of any of the covered agreements. The provision of compensation should be resorted to only if the immediate withdrawal of the measure is impracticable and as a temporary measure pending the withdrawal of the measure which is inconsistent with a covered agreement. The last resort which this Understanding provides to the Member invoking the dispute settlement procedures is the possibility of suspending the application of concessions or other obligations under the covered agreements on a discriminatory basis vis-à-vis the other Member, subject to authorization by the DSB of such measures.

8.
In cases where there is an infringement of the obligations assumed under a covered agreement, the action is considered *prima facie* to constitute a case of nullification or impairment. This means that there is normally a presumption that a breach of the rules has an adverse impact on other Members parties to that covered agreement, and in such cases, it shall be up to the Member against whom the complaint has been brought to rebut the charge.

9.
The provisions of this Understanding are without prejudice to the rights of Members to seek authoritative interpretation of provisions of a covered agreement through decision-making under the WTO Agreement or a covered agreement which is a Plurilateral Trade Agreement.

10.
It is understood that requests for conciliation and the use of the dispute settlement procedures should not be intended or considered as contentious acts and that, if a dispute arises, all Members will engage in these procedures in good faith in an effort to resolve the dispute. It is also understood that complaints and counter-complaints in regard to distinct matters should not be linked.

11.
This Understanding shall be applied only with respect to new requests for consultations under the consultation provisions of the covered agreements made on

or after the date of entry into force of the WTO Agreement. With respect to disputes for which the request for consultations was made under GATT 1947 or under any other predecessor agreement to the covered agreements before the date of entry into force of the WTO Agreement, the relevant dispute settlement rules and procedures in effect immediately prior to the date of entry into force of the WTO Agreement shall continue to apply.

12.
Notwithstanding paragraph 11, if a complaint based on any of the covered agreements is brought by a developing country Member against a developed country Member, the complaining party shall have the right to invoke, as an alternative to the provisions contained in Articles 4, 5, 6 and 12 of this Understanding, the corresponding provisions of the Decision of 5 April 1966 (BISD 14S/18), except that where the Panel considers that the time-frame provided for in paragraph 7 of that Decision is insufficient to provide its report and with the agreement of the complaining party, that time-frame may be extended. To the extent that there is a difference between the rules and procedures of Articles 4, 5, 6 and 12 and the corresponding rules and procedures of the Decision, the latter shall prevail.

Article 4

Consultations

1.
Members affirm their resolve to strengthen and improve the effectiveness of the consultation procedures employed by Members.

2.
Each Member undertakes to accord sympathetic consideration to and afford adequate opportunity for consultation regarding any representations made by another Member concerning measures affecting the operation of any covered agreement taken within the territory of the former.

3.
If a request for consultations is made pursuant to a covered agreement, the Member to which the request is made shall, unless otherwise mutually agreed, reply to the request within 10 days after the date of its receipt and shall enter into consultations in good faith within a period of no more than 30 days after the date of receipt of the request, with a view to reaching a mutually satisfactory solution. If the Member does not respond within 10 days after the date of receipt of the request, or does not enter into consultations within a period of no more than 30 days, or a period otherwise mutually agreed, after the date of receipt of the request, then the Member that requested the holding of consultations may proceed directly to request the establishment of a panel.

4.
All such requests for consultations shall be notified to the DSB and the relevant Councils and Committees by the Member which requests consultations. Any request

for consultations shall be submitted in writing and shall give the reasons for the request, including identification of the measures at issue and an indication of the legal basis for the complaint.

5.
In the course of consultations in accordance with the provisions of a covered agreement, before resorting to further action under this Understanding, Members should attempt to obtain satisfactory adjustment of the matter.

6.
Consultations shall be confidential, and without prejudice to the rights of any Member in any further proceedings.

7.
If the consultations fail to settle a dispute within 60 days after the date of receipt of the request for consultations, the complaining party may request the establishment of a panel. The complaining party may request a panel during the 60-day period if the consulting parties jointly consider that consultations have failed to settle the dispute.

8.
In cases of urgency, including those which concern perishable goods, Members shall enter into consultations within a period of no more than 10 days after the date of receipt of the request. If the consultations have failed to settle the dispute within a period of 20 days after the date of receipt of the request, the complaining party may request the establishment of a panel.

9.
In cases of urgency, including those which concern perishable goods, the parties to the dispute, panels and the Appellate Body shall make every effort to accelerate the proceedings to the greatest extent possible.

10.
During consultations Members should give special attention to the particular problems and interests of developing country Members.

11.
Whenever a Member other than the consulting Members considers that it has a substantial trade interest in consultations being held pursuant to paragraph 1 of Article XXII of GATT 1994, paragraph 1 of Article XXII of GATS, or the corresponding provisions in other covered agreements, such Member may notify the consulting Members and the DSB, within 10 days after the date of the circulation of the request for consultations under said Article, of its desire to be joined in the consultations. Such Member shall be joined in the consultations, provided that the Member to which the request for consultations was addressed agrees that the claim of substantial interest is well-founded. In that event they shall so inform the DSB. If the request to be joined in the consultations is not accepted, the applicant Member shall be free to request consultations under paragraph 1 of Article XXII or paragraph 1 of Article XXIII of GATT 1994, paragraph 1 of Article XXII or paragraph 1 of Article XXIII of GATS, or the corresponding provisions in other covered agreements.

Article 5

Good Offices, Conciliation and Mediation

1.
Good offices, conciliation and mediation are procedures that are undertaken voluntarily if the parties to the dispute so agree.

2.
Proceedings involving good offices, conciliation and mediation, and in particular positions taken by the parties to the dispute during these proceedings, shall be confidential, and without prejudice to the rights of either party in any further proceedings under these procedures.

3.
Good offices, conciliation or mediation may be requested at any time by any party to a dispute. They may begin at any time and be terminated at any time. Once procedures for good offices, conciliation or mediation are terminated, a complaining party may then proceed with a request for the establishment of a panel.

4.
When good offices, conciliation or mediation are entered into within 60 days after the date of receipt of a request for consultations, the complaining party must allow a period of 60 days after the date of receipt of the request for consultations before requesting the establishment of a panel. The complaining party may request the establishment of a panel during the 60-day period if the parties to the dispute jointly consider that the good offices, conciliation or mediation process has failed to settle the dispute.

5.
If the parties to a dispute agree, procedures for good offices, conciliation or mediation may continue while the panel process proceeds.

6.
The Director-General may, acting in an *ex officio* capacity, offer good offices, conciliation or mediation with the view to assisting Members to settle a dispute.

…

Multilateral Trade Measures: WTO Dispute Settlement

DAVID PALMETER, NATIONAL SOVEREIGNTY AND THE WORLD TRADE ORGANIZATION[1]

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III. Background

GATT was a multilateral trade agreement that grew out of the aftermath of World War II. In its 47 years of existence, GATT served as the forum for eight rounds of tariff-cutting negotiations . . . GATT was a complex agreement, but it was based on three core 'constitutional' Articles, which remain fundamental in the WTO. In fact, the 1947 GATT has been brought into the WTO word for word, where it is now part of 'GATT 1994.' . . .

The first core constitutional provision of GATT, set out in Article I, is 'most favoured-nation' treatment, which is an unusual way of saying 'normal' treatment. It means that each GATT party, and now each WTO member, receives the same tariff treatment as the 'most favoured' Party or Member–in other words, they are treated the same. Any favour granted to one is granted to all. The second principle, set out in Article II, is tariff-binding. This is simply a promise not to raise tariffs above agreed levels. The third principle, set out in Article III, is 'national treatment'. It means that once foreign goods have entered the national market of another Member, once the bound tariff is paid and import formalities are completed, foreign goods will be treated the same as domestic goods for tax and all other regulatory purposes.

[GATT] was less than a year old when its first dispute arose . . .The Chairman of the meeting at which the complaint was made ruled that the [tax on imports levied by one state were a violation of GATT]. . . This is how dispute settlement began, with a simple ruling from the Chair in 1948. . . . Over time, the complexity of the questions increased, and the chair began to refer them to working parties comprised of the disputants and any others interested in the issue. Eventually, this evolved into a system of panels composed of delegates from parties not involved in the dispute who heard arguments from the disputants. Still later, non-delegates, usually academics and retired government officials, began serving as panelists from time to time.

. . . .

One characteristic of this system reflected its origin as a multi-party agreement: the requirement that concurrence of the entire membership was necessary for any action, including the adoption of dispute settlement reports. Nothing in GATT gave the Chair the authority to decide that question in 1948. Canada's Dana Wilgress simply was in the chair when the question was raised and he ruled. Any party, most particularly the party he ruled against, could have objected. But no-one did, and that was the key to the GATT dispute settlement.

Reports of working parties and, later of panels were brought before the entire membership. Objection–usually by the losing party–was enough to prevent their adoption. Dissatisfaction with the system, primarily by the United States, led to the adoption of the WTO's Understanding on Rules and Procedures Governing the Settlement of Disputes–the DSU.

IV. WTO Dispute Settlement

The move from GATT to the WTO very much reflects a move away from a diplomatic approach to solving problems toward a juridical approach. Brazil's ambassador to the WTO, Celso Lafer, has used the term "thickening of legality" to describe the change. Vestiges of the diplomatic remain in dispute settlement . . . and at times these have provided ammunition for critics of the WTO.

Formal dispute settlement begins with a request for consultations from the complaining party to a potential defendant. . . [I]n many instances extensive discussions between the governments concerned will already have occurred well before a request for formal consultations is made. Frequently, a decision to request consultations in reality is a decision to start the formal process.

If consultations do not produce a solution, the complaining party may request the Dispute Settlement Body–the DSB–to establish a panel. The WTO Secretariat presents the names of possible panelists to the parties. These names are drawn from a list of qualified individuals maintained by the Secretariat, [which] includes names provided by [WTO] Members. If the parties cannot agree on three names, either party eventually may ask the Director-General to name the panel. This has happened on occasion, although Members generally prefer to avoid it as too unpredictable.

After panelists are agreed upon or are named by the Director-General, the process begins. The parties submit written briefs and meet with the panel, and then repeat the process with rebuttal briefs and a second meeting. The panel subsequently presents an interim report to the parties on which they may comment and point out errors. . .

The panel gives whatever consideration it deems appropriate to the comments of the parties on the interim report, and then issues its final report first to the parties and, about two weeks later, to the entire membership. In theory, the interim report is confidential; it is intended to give the parties the chance to settle the case before the report is made public. But leaks to the press of the results of interim reports are notorious . . . On at least one occasion, however, the [process] has worked [as hoped]. In a dispute between Canada and the European Communities, the parties settled after they received the final report but before it was made public.

. . . .

Once a panel report has been issued–by being circulated to all the Members of the WTO, at which time it is also released to the public–it will be adopted unless it is appealed or unless there is a consensus not to adopt. Since it is highly unlikely that the winning party would join a consensus not to adopt a decision in a case it just won, adoption is all but automatic.

This is just the opposite of the GATT system where decisions were not adopted unless there was a consensus to do so, consensus [requiring] agreement of the losing party. While the losing party agreed to adopt GATT reports in about 90% of the cases, a number of reports in important cases were blocked and others were adopted only after several years. Change in this system of blockage and delay was an important negotiating goal of the United States in the Uruguay Round. . .

The right to appeal from a panel decision is another extremely important innovation of the Uruguay Round. There was no appeal in the GATT. The Uruguay Round negotiators believed, however, that with the new system of near automatic adoption of reports, appellate review was necessary. The Appellate Body, a semi-permanent group of seven members, three of whom serve on a particular case, was the result. . .

World Trade CLASS 6, TRIPS Agmt. Arts 41-61: Enforcement of IP

AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS, INCLUDING TRADE IN COUNTERFEIT GOODS

PART III: ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

SECTION 1: GENERAL OBLIGATIONS

Article 41

1. Members shall ensure that enforcement procedures as specified in this Part are available under their national laws so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time- limits or unwarranted delays.

3. Decisions on the merits of a case shall preferably be in writing and reasoned. They shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard.

4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in national laws concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the merits of a case. However, there shall be no obligation to provide an opportunity for review of acquittals in criminal cases.

5. It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of laws in general, nor does it

affect the capacity of Members to enforce their laws in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of laws in general.

SECTION 2: CIVIL AND ADMINISTRATIVE PROCEDURES AND REMEDIES

Article 42 *Fair and Equitable Procedures*

Members shall make available to right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement. Defendants shall have the right to written notice which is timely and contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearances. All parties to such procedures shall be duly entitled to substantiate their claims and to present all relevant evidence. The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements.

Article 43 *Evidence of Proof*

1. The judicial authorities shall have the authority, where a party has presented reasonably available evidence sufficient to support its claims and has specified evidence relevant to substantiation of its claims which lies in the control of the opposing party, to order that this evidence be produced by the opposing party, subject in appropriate cases to conditions which ensure the protection of confidential information.

2. In cases in which a party to a proceeding voluntarily and without good reason refuses access to, or otherwise does not provide necessary information within a reasonable period, or significantly impedes a procedure relating to an enforcement action, a Member may accord judicial authorities the authority to make preliminary and final determinations, affirmative or negative, on the basis of the information presented to them, including the complaint or the allegation presented by the party adversely affected by the denial of access to information, subject to providing the parties an opportunity to be heard on the allegations or evidence.

Article 44 *Injunctions*

1. The judicial authorities shall have the authority to order a party to

desist from an infringement, inter alia to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs clearance of such goods. Members are not obliged to accord such authority in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right.

2. Notwithstanding the other provisions of this Part and provided that the provisions of Part II specifically addressing use by governments, or by third parties authorized by a government, without the authorization of the right holder are complied with, Members may limit the remedies available against such use to payment of remuneration in accordance with sub-paragraph (h) of Article 31 above. In other cases, the remedies under this Part shall apply or, where these remedies are inconsistent with national law, declaratory judgments and adequate compensation shall be available.

Article 45 ***Damages***

1. The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of his intellectual property right by an infringer who knew or had reasonable grounds to know that he was engaged in infringing activity.

2. The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre- established damages even where the infringer did not know or had no reasonable grounds to know that he was engaged in infringing activity.

Article 46 ***Other Remedies***

In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed. The judicial authorities shall also have the authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be, without

compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements. In considering such requests, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account. In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.

Article 47 ***Right of Information***

Members may provide that the judicial authorities shall have the authority, unless this would be out of proportion to the seriousness of the infringement, to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution.

Article 48 ***Indemnification of the Defendant***

1. The judicial authorities shall have the authority to order a party at whose request measures were taken and who has abused enforcement procedures
to provide to a party wrongfully enjoined or restrained adequate compensation for the injury suffered because of such abuse. The judicial authorities shall also have the authority to order the applicant to pay the defendant expenses, which may include appropriate attorney's fees.

2. In respect of the administration of any law pertaining to the protection or enforcement of intellectual property rights, Members shall only exempt both public authorities and officials from liability to appropriate remedial measures where actions are taken or intended in good faith in the course of the administration of such laws.

Article 49 ***Administrative Procedures***

To the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in this Section.

SECTION 3: PROVISIONAL MEASURES

Article 50

1. The judicial authorities shall have the authority to order prompt and effective provisional measures:

(a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance;

(b) to preserve relevant evidence in regard to the alleged infringement.

2. The judicial authorities shall have the authority to adopt provisional measures inaudita altera parte where appropriate, in particular where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed.

3. The judicial authorities shall have the authority to require the applicant to provide any reasonably available evidence in order to satisfy themselves with a sufficient degree of certainty that the applicant is the right holder and that his right is being infringed or that such infringement is imminent, and to order the applicant to provide a security or equivalent assurance sufficient to protect the defendant and to prevent abuse.

4. Where provisional measures have been adopted inaudita altera parte, the parties affected shall be given notice, without delay after the execution of the measures at the latest. A review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period after the notification of the measures, whether these measures shall be modified, revoked or confirmed.

5. The applicant may be required to supply other information necessary for the identification of the goods concerned by the authority that will execute the provisional measures.

6. Without prejudice to paragraph 4 above, provisional measures taken on the basis of paragraphs 1 and 2 above shall, upon request by the defendant, be revoked or otherwise cease to have effect, if proceedings leading to a decision on the merits of the case are not initiated within a reasonable period, to be determined by the judicial authority ordering the measures where national law so permits or, in the absence of such a determination, not to exceed twenty working days or thirty-one calendar days, whichever is the longer.

7. Where the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where it is subsequently found that there has been no infringement or threat of infringement of an intellectual property right, the judicial authorities shall have the authority to order the applicant, upon request of the defendant, to provide the defendant appropriate compensation for any injury caused by these measures.

8. To the extent that any provisional measure can be ordered as a result of administrative procedures, such procedures shall conform to principles equivalent in substance to those set forth in this Section.

SECTION 4: SPECIAL REQUIREMENTS RELATED TO BORDER MEASURES

Article 51 *Suspension of Release by Customs Authorities*[14]

Members shall, in conformity with the provisions set out below, adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. Members may enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met. Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories.

Article 52 *Application*

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[14] 14. For the purposes of this Agreement:
- counterfeit trademark goods shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;
- pirated copyright goods shall mean any goods which are copies made without the consent of the right holder or person duly authorized by him in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

Any right holder initiating the procedures under Article 51 above shall be required to provide adequate evidence to satisfy the competent authorities that, under the laws of the country of importation, there is prima facie an infringement of his intellectual property right and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities. The competent authorities shall inform the applicant within a reasonable period whether they have accepted the application and, where determined by the competent authorities, the period for which the customs authorities will take action.

Article 53 ***Security or Equivalent Assurance***

1. The competent authorities shall have the authority to require an applicant to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities and to prevent abuse. Such security or equivalent assurance shall not unreasonably deter recourse to these procedures.

2. Where pursuant to an application under this Section the release of goods involving industrial designs, patents, layout-designs or undisclosed information into free circulation has been suspended by customs authorities on the basis of a decision other than by a judicial or other independent authority, and the period provided for in Article 55 has expired without the granting of provisional relief by the duly empowered authority, and provided that all other conditions for importation have been complied with, the owner, importer, or consignee of such goods shall be entitled to their release on the posting of a security in an amount sufficient to protect the right holder for any infringement. Payment of such security shall not prejudice any other remedy available to the right holder, it being understood that the security shall be released if the right holder fails to pursue his right of action within a reasonable period of time.

Article 54 ***Notice of Suspension***

The importer and the applicant shall be promptly notified of the suspension of the release of goods according to Article 51 above.

Article 55 ***Duration of Suspension***

If, within a period not exceeding ten working days after the applicant has been served notice of the suspension, the customs authorities have not been informed that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly

empowered authority has taken provisional measures prolonging the suspension of the release of the goods, the goods shall be released, provided that all other conditions for importation or exportation have been complied with; in appropriate cases, this time-limit may be extended by another ten working days. If proceedings leading to a decision on the merits of the case have been initiated, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period, whether these measures shall be modified, revoked or confirmed. Notwithstanding the above, where the suspension of the release of goods is carried out or continued in accordance with a provisional judicial measure, the provisions of Article 50, paragraph 6 above shall apply.

Article 56 ***Indemnification of the Importer and of the Owner of the Goods***

Relevant authorities shall have the authority to order the applicant to pay the importer, the consignee and the owner of the goods appropriate compensation for any injury caused to them through the wrongful detention of goods or through the detention of goods released pursuant to Article 55 above.

Article 57 ***Right of Inspection and Information***

Without prejudice to the protection of confidential information, Members shall provide the competent authorities the authority to give the right holder sufficient opportunity to have any product detained by the customs authorities inspected in order to substantiate his claims. The competent authorities shall also have authority to give the importer an equivalent opportunity to have any such product inspected. Where a positive determination has been made on the merits of a case, Members may provide the competent authorities the authority to inform the right holder of the names and addresses of the consignor, the importer and the consignee and of the quantity of the goods in question.

Article 58 ***Ex Officio Action***

Where Members require competent authorities to act upon their own initiative and to suspend the release of goods in respect of which they have acquired prima facie evidence that an intellectual property right is being infringed:

(a) the competent authorities may at any time seek from the right holder any information that may assist them to exercise these powers;

(b) the importer and the right holder shall be promptly notified of the suspension. Where the importer has lodged an appeal against the suspension with the competent authorities, the suspension shall be subject to the conditions, mutatis mutandis, set out at Article 55 above;

(c) Members shall only exempt both public authorities and officials from liability to appropriate remedial measures where actions are taken or intended in good faith.

Article 59 ***Remedies***

Without prejudice to other rights of action open to the right holder and subject to the right of the defendant to seek review by a judicial authority, competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46 above. In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances.

Article 60 ***De Minimis Imports***

Members may exclude from the application of the above provisions small quantities of goods of a non-commercial nature contained in travellers' personal luggage or sent in small consignments.

SECTION 5: CRIMINAL PROCEDURES

Article 61

Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.

PART V: DISPUTE PREVENTION AND SETTLEMENT

Article 63 ***Transparency***

1. Laws and regulations, and final judicial decisions and administrative rulings of general application, made effective by any Member pertaining to the subject matter of this Agreement (the availability, scope, acquisition, enforcement and prevention of the abuse of intellectual property rights) shall be published, or where such publication is not practicable made publicly available, in a national language, in such a manner as to enable governments and right holders to become acquainted with them. Agreements concerning the subject matter of this Agreement which are in force between the government or a governmental agency of any Member and the government or
a governmental agency of any other Member shall also be published.

…3. Each Member shall be prepared to supply, in response to a written request from another Member, information of the sort referred to in paragraph 1 above. A Member, having reason to believe that a specific judicial decision or administrative ruling or bilateral agreement in the area of intellectual property rights affects its rights under this Agreement, may also request in writing to be given access to or be informed in sufficient detail of such specific judicial decisions or administrative rulings or bilateral agreements.

[end of text]

China's Action Plan on IPR Protection 2006
UPDATED: 14:36, April 30, 2006
http://english.people.com.cn/200604/30/text20060430_262334.html

To better protect the IPR, resolutely punish and combat various infringement and other illegal activities, the National IPR Protection Working Group Office, in conjunction with other relevant departments, formulated "China's Action Plan on IPR Protection 2006" (hereinafter referred to as the "Action Plan").

Focusing on major issues in relation with China's IPR protection efforts, the Action Plan clearly defines the China's tasks in IPR protection in 2006. It is a comprehensive, scientific and highly workable action plan with priorities, and therefore plays an important role in guiding China's IPR protection endeavor.

The Action Plan covers 4 major areas: trade mark, copyright, patent and import and export, which involve the IPR protection plans and arrangements of 11 departments, including the Ministry of Public Security, Ministry of

Information Industry, Ministry of Commerce, Ministry of Culture, Customs General Administration, State Administration of Industry and Commerce, Administration of Quality Inspection, Supervision and Quarantine, Copyright Bureau, State Food and Drug Administration, State Intellectual Property Office, and Legislative Affairs Office of the State Council. The Action Plan covers 9 areas: legislation, law enforcement, mechanism building, propaganda, training and education, international communication and cooperation, promoting business self discipline, services to right holders, and subject research. In line with the Action Plan, in 2006 China will draft, formulate and revise 17 laws, regulations, rules and measures relating to trademark, copyright, patent and customs protection, and draft, improve and revise 6 judicial interpretations. The IPR law enforcement efforts will include 7 dedicated campaigns such as the "Mountain Eagle", "Sunshine" and "Blue Sky", 8 regular enforcement initiatives and 20 specific measures. The government is going to establish a long standing mechanism constituting 12 parts, including a service center for reporting and complaining IPR violations and publicizing law enforcement statistics, and 19 specific measures. 7 approaches and 39 measures will be adopted to raise the general public's awareness of IPR protection. 21 IPR training programs will be organized under the Project of Training Thousands of IPR Personnel. The focus of IPR related international exchanges and cooperation will be on legislation, trade mark, copyright, patent and customs protection, which will be facilitated through 19 exchange and cooperation activities, out of which 7 will be between China and the US. With a view to improving enterprises' consciousness and awareness of IPR protection, 3 initiatives will be launched, including the convening of a conference on enterprises' IPR protection and proprietary innovation. 12 specific measures covering 9 areas will be put in place to better serve the right holders. Besides, countermeasure oriented research will be conducted in 5 fields to strengthen IPR protection.

I. Legislative Plan

(I). To draft, formulate and revising a part of laws and regulations in relation to trademark protection

1. To accelerate the study on revising the Trademark Law and complete the drafting of the revision.

2. To accelerate the formulation of the Regulations on Trademark Agents and prepare well for the implementation of the Regulations.

3. To strengthen the study on the hotspot and difficult issues in trademark law enforcement, accelerate the formulation of the Opinions on Several

Issues concerning Trademark Administrative Enforcement, and solve common problems in trademark law enforcement.

4. To study the conflict between trademarks and names of enterprises and accelerate the formulation of the Regulations on Handling the Conflict between Trademarks and Names of Enterprises.

(II) To draft, formulate and revise a part of laws and regulations in relation to patent protection

1. To accelerate the formulation of the Measures on Remuneration of Radio and Television Statutory Licensing.

2. To accelerate the formulation of the Regulations on the Copyright Protection of Folk Literature and Artistic Works.

3. To ensure the Measures on Voluntary Registration of Works will be formulated well.

4. To accelerate the formulation of the Regulations on the Protection of the Right of Communication through Information Network in order to protect the right of communication through information network and encourage the spread of good works, performance and sound/visual recordings through information network to the general public.

(III) To draft, formulate and revise a part of laws and regulations in relation to patent protection

1. To revise the Regulations on Patent Agency in order to standardize the conduct of patent agents, safeguard the normal order of the patent agency industry, and protect the legitimate rights and interests of interested parties.

2. To revise and issue the Guide on Patent Review, and edit, publish, and publicize the Guide on Patent Review and translate it into English.

3. To shape up the proposal on the third revision of the Patent Law by widely soliciting the opinions and suggestions from relevant departments of the State Council, the business community, public institutions, universities, academic research institutes and patent agents on the basis of completing the research on the third revision.

(IV) To formulate and implement the Outline of IPR Protection Action.

To observe the overall requirement of tackling problems both on the surface and at the root, to identify key industries and areas, to set periodic goals pertaining to weak aspects, to define missions of strengthening law enforcement, fighting illegalities and crimes, and long-term mechanism for promoting legal construction, building enforcement teams, and intensifying publicity and education, and to improve the IPR protection system where administrative protection, judicial protection, safeguarding of rights by right holders, self-discipline of industries, intermediary services organizations, and public supervision function collectively.

(V) To improve various rules and systems related to customs' IPR protection and formulate regulations like the Measures on Master Guarantee.

(VI) To formulate and revise a part of laws and regulations in relation to pharmaceutical IPR protection.

1. To continue to cooperate with relevant departments to revise the Regulations on Varieties of Chinese Traditional Medicines.

2. To continue the revision of the Implementing Rules of the Regulations on Administrative Protection of Pharmaceuticals.

(VII) To formulate and implement the Regulations on IPR Protection at Fairs and Exhibitions.

In order to reinforce IPR protection during fairs and exhibitions, maintain the order of the exhibition and convention industry, and promote the healthy development of the industry, the Ministry of Commerce, the State Administration of Industry and Commerce, the National Copyright Administration, the State Intellectual Property Office will jointly formulate the Regulations on IPR Protection at Fairs and Exhibitions, requesting departments administering fairs and exhibitions to reinforce the coordination, supervision and inspection for IPR protection at fairs and exhibitions in order to maintain the normal order of the fairs and exhibitions.

(VIII) To strengthen research and study, improve judicial interpretation, and solve the problems concerning law application in trials.

1. to issue the following four judicial interpretations at an early date on the basis of furthering research and soliciting opinions:

(1) Interpretation of the Supreme People's Court on Several Issues Concerning the Laws Applicable for Civil Dispute Cases of Unfair Competition.

(2) Interpretation of the Supreme People's Court on Several Issues Concerning the Laws Applicable for Cases of Infringing the Right of New Plant Species.

(3) Interpretation of the Supreme People's Court on Several Issues Concerning the Laws Applicable for Civil Dispute Cases of Conflicts of Intellectual Property Rights.

(4) Interpretation of the Supreme People's Court on Several Issues Concerning the Laws Applicable for Civil Dispute Cases of Music Video Copyright.

2. To ensure a rapid and effective drafting and revision of the Interpretation of the Supreme People's Court on Several Issues Concerning the Laws Applicable for Determination of Patent Infringement in order to solve outstanding problems of law application in trials.

3. To improve the Interpretation on Several Issues of Specific Application of Laws in Handling Criminal Cases of IPR Infringement jointly issued by the Supreme People's Court and the Supreme People's Procuratorate so as to provide the legal ground for combating crimes of infringing intellectual property rights. To review the enforcement of Interpretation on Several Issues of Specific Application of Laws in Handling Criminal Cases of IPR Infringement over the past year and make prompt clarification or further interpretation on problems in trials and practice, particularly problems like the calculation of the value of illegal business operation, crimes committed by units and repeated counterfeiting.

II. Law Enforcement Plans

(I) Special Crackdown Efforts

1. Special Crackdown Operations for Trademark Protection

(1) Public security authorities across the country will carry on with Operation Mountain Eagle to combat IPR-infringing crimes and severely deal with infringers and pirates.

(2) Industry and commerce authorities will probe into issues and less-than-effective enforcement points identified during the special operations for trademark protection, take more precise actions, and deal severely with trademark-infringing cases that are particularly serious and vicious in nature with strong social repercussions.

2. Special Operations for Audiovisual Products

To follow through the Region-specific Action Plan for Severely Combating Illegal and Criminal Activities Involving Infringement and Piracy to deliver a deadly blow on infringers and pirates.

(1) Public security authorities will remain closely engaged in unearthing illegal CD production lines and cracking down on infringement and piracy by distributors, duplicators and publishers of audiovisual products.

(2) Culture authorities will closely monitor provincial and large-to-medium cities and join other relevant authorities in staging three large-scale and focused campaigns, besides exercising greater supervision on critical processes, regions, and pushing on the handling of key cases.

A. Operation Sunshine No.1 in the first quarter, aimed to create a more friendly market

B. Operation Sunshine No.2 during the summer vacation with a focus on clearing out pirated and infringing audiovisual products in legal wholesaling, retailing and rental stores, and on safeguarding the legitimate rights and interest of minors

C. Operation Sunshine No.3 between the National Day and the New Year, protecting primarily the distribution and screening of major domestically-produced films.

3. Operation Blue Sky at Trade Shows

To implement the Measures for IPR Protection at Trade Shows and with a view to effectively containing IPR-infringing activities during trade shows, standardizing market order at the shows, increasing the awareness for IPR protection at trade shows, creating a fair environment for competition, improving management of the exposition business and fostering well-known international trade shows, the Ministry of Commerce (MOFCOM), the General Administration of Customs (GAC), the State Administration for Industry and Commerce (SAIC), the Copyright Office, State Intellectual Property Office (SIPO), the China Council for the Promotion of International Trade (CCPIT) and the Executive Office of the National Working Group on IPR Protection will stage a one-year campaign entitled Operation Blue Sky to protect IPR at trade shows. The campaign with a special focus on raising the awareness for trademark, copyright and patent protection will chase after

cases brought to high attention by IPR holders for breakthroughs and full progress.

Meanwhile, public education efforts will continue. To produce and publish 100,000 pamphlets and CDs on IPR protection at trade shows, promote the Measures for IPR Protection at Trade Shows and unveil programs for special campaigns through the Internet, promote the campaigns through press and media, post and distribute publications on related laws and regulations (in both Chinese and English) at trade shows, post contact details of local IPR authorities, and organize the heads of 200 exhibition companies and of exhibition facilities to sign on a Statement of Commitments to "operating legally and honestly, and protecting IPR".

In addition, three group trainings will be organized with a special purpose of updating people on how to protect IPR at trade shows and how to effectively keep the products of suspected infringing companies off the shows.

4. To take focused enforcement actions for patent protection around March 15 and April 26. Around those two days, inter-agency and cross-region patent examinations and collective crackdown actions will be organized in key regions across the country.

(II) Enforcement on a Day-to-day Basis

1. Culture authorities will severely deal with private servers and external sites engaged in illegal music and game business over the Internet. Targets of larger scales and wider influence will first be selected. Illegal and unauthorized Internet culture undertakings will be seriously dealt with as well as illegal activities disruptive to the market order.

2. Industry and commerce authorities will closely monitor such control points as OEM, trademark labeling and commodity trading markets, to intensify regular trademark supervision and standardize trademark use.

3. Quality and technology supervision authorities at various localities will be particularly responsive to the following illegal activities.

(1) The production of fake labels, marks and packaging,

(2) The forgery of and false claims to factory names and addresses, especially those of well-known domestic and foreign brands; the forgery of and false claims to quality markings of other parties and standard-incompliant labeling and marks,

(3) Violation of other parties' IPR by way of OEM (joint crackdown efforts with industry and commerce, customs, and commerce authorities)

4. Copyright authorities will look for breakthroughs in key cases and intensify their administrative enforcement efforts.

(1) To conduct examinations and checks after special campaigns on, for example, combating cyber infringement and piracy, to prevent the resurgence of already dismantled illegal organizations.

(2) To crack down especially on illegal operations which profit by providing film, music and software downloads through the Internet and look for breakthroughs from here, with a view to settling a number of key cases, closing down a number of websites and punishing a number of offenders before the end of this year.

(3) To carry out efforts to "straighten out and crack down on production lines of pirated optical discs", actively coordinate with CD-duplicating parties to streamline optical disc production companies. In this process, priorities need to be identified, enforcement needs to be rigorous, and penalty needs to be made as harsh, heavy and quick as possible.

(4) Actively coordinate with authorities such as the Committee on Education, Science, Culture and Health of the National People's Congress to review progress in the implementation of the Copyright Law across the country.

5. Food and drug authorities will further consolidate enforcement and administration of the drug market.

(1) To continue to implement the Early Intervention Plan for Innovative Drugs of the State Food and Drug Administration (SDA) and encourage R&D of new drugs in China through better regulation.

(2) To further streamline the advertising of drugs, medical equipment and devices and nutritional products.

(3) To further strengthen supervision on traditional medicinal herbs and TCM potions and pills in circulation.

(4) To further strengthen regulation of vaccines in circulation.

(5) To further upgrade and improve the sampling check on drugs and medical equipment and devices.

6. To strengthen patent enforcement by the State Intellectual Property Office (SIPO)

To participate in inspections concerning the enforcement of the Patent Law led by the Standing Committee of the National People's Congress. To step up IPR protection and encouraged independent innovation through the patent regime, thereby serving the needs of economic restructuring and the transformation in the approach for economic growth.

7. In order to intensify efforts combating such crimes as that of undermining the order of the socialist market economy and that of disrupting the order of social administration, and with a special emphasis on crimes infringing intellectual property, thus reinforcing enforcement conduct and procedures, the Supreme People's Procuratorate (SPP) will, in the first half of this year, join the Office of the National Leading Group on Market Rectification and Standardization, the Ministry of Public Security (MPS) and the Ministry of Supervision in releasing the Interim Regulation on the Timely Transfer of Suspected Criminal Cases in Administrative Enforcement.

8. The Supreme People's Court (SPC) has aptly applied the laws and judicial interpretations, adjudicated IPR cases in a just manner, thus ensuring scientific and technological innovations.

(1) The SPC will aptly apply the Criminal Code, the Interpretation by the SPC and SPP on Several Issues concerning Specific Laws Applied in the Handling of IPR Criminal Cases and the Reply by the SPC and SPP on Issues concerning AV products involved in the Handling of Copyright Infringing Criminal Cases. By giving full play to the penalizing and deterrent role criminal prosecutions exert, the SPC will deliver earnest and prompt guidance to the handling of all cases, thus dealing an effective blow to and pre-empting IPR-infringing crimes as well as protecting intellectual properties.

(2) Courts at various levels will rigorously implement the Trademark Law, the Copyright Law, the Patent Law and the Law against Unfair Competition, adjudicating each and every civil case in a just manner, thus safeguarding the legitimate rights and interests of the IP right-holders.

(3) While performing their due responsibilities in accordance with the law, people's courts at various levels, public security agencies, prosecuting bodies and other entities of administrative enforcement will continue to cooperate closely, doing their utmost to ensure a law-based trial and timely verdict once the relevant procedures are initiated.

(4) In light of the ambiguity and confusion that might arise in the definition of civil infringement and criminal offences in IPR cases, the people's courts will pay particular attention to the distinction between crimes and non-crimes, crime of one kind and that of another, as well as communicating and coordinating with the relevant agencies of administrative enforcement, thus weaving an impermeable legal network. They are also in a position to present judicial recommendations in cases wherein the relevant agencies have replaced criminal sanctions with administrative penalties, therefore leading to case-handling.

9. The SPP will investigate into and prosecute those crimes involving the abuse of power by government officials behind the IPR infringing crimes in a stringent manner, resolutely rooting out such "umbrellas of protection".

III. Plans on institutional building

(I) To set up such working mechanisms as those concerning complaint registering, public notification and statistical releases, structuring a networked platform capable of information servicing, case supervision, statistical collection, status evaluation and early warning.

(II) To set up complaint and service centers in cities where people's governments for the provinces, autonomous regions and municipalities directly under central administration locate as well as in other important cities, for better supervision of the proceedings of the relevant cases.

(III) Building on the release of the Opinion concerning the Timely Transfer of Suspected Criminal Cases in Administrative Enforcement (hereinafter referred to as The Opinion), to give a further push to the improvement of the working mechanism pigeon-tailing administrative enforcement and criminal adjudication.

1. To improve the joint enforcement meeting mechanism involving SIPO, SAIC, Sate Copyright Bureau, SPC and the SPP, bringing the cooperation programs into greater depth while exploring more channels of cooperation, organizing cross-regional IPR enforcement inspections and studies in order to promote cross-sectional exchanges amongst various regions.

2. To improve the coordinating mechanism between public security agencies, prosecuting bodies and the national administrative entities of industry and commerce, vigorously following through the Interim Regulation concerning Intensified Interlinking and Coordination in the Combat against Copyright Infringing Criminal Offences.

3. To accelerate the formulation of the coordinating mechanism between the MPS and the General Administration of Customs (GAC), stepping up the coordination and cooperation between the two agencies.

4. To establish the working mechanism on the transfer of information underling infringing and pirating criminal cases from the administrative enforcement entities to the public security agencies. MPS plans to join the Ministry of Culture (MOC), the State News and Publication Administration (SNPA), the State Copyright Bureau and SAIC in releasing the relevant documents, thereby clearly defining such contents as transfer procedures while introducing discipline and order into the work on the transfer of infringement and piracy cases.

5. To vigorously disseminate the practice of "an information-sharing platform by administrative enforcement and criminal adjudication" developed and applied by the Municipal Office for Market Rectification and Standardization and the People's Procuratorate of Shanghai, thus furnishing modernized means and a long-term platform for the working mechanism pigeon-tailing administrative enforcement and criminal adjudication while transpiring this mechanism into the area of actual case proceedings. An on-site meeting in Shanghai is planned together with the National Office on Market Rectification and Standardization in late May, with the aim of looking into and disseminating the experiences by Pudong District in instituting this information-sharing platform linking administrative enforcement with judicial adjudication.

(IV) To promote cross-regional coordination in enforcement.

To formulate plans for cross-regional joint enforcement efforts. To give a further push to cross-regional joint enforcement efforts on patent administration. To provide for specific regulations that are operational with regard to the scope and procedures of cases whereto the cross-regional joint enforcement mechanism is applicable, in response to the legal issues involved in joint enforcement endeavors.

(V) To develop a reporting system of the basic data on IPR protection and notify the outside world the data concerning IPR protection by China.

(VI) To improve the mechanism of rewarding reports.

MOS plans to consult with the MOC, SNPA and the State Copyright Bureau to improve the system of rewarding reports, thus mobilizing the public to provide the relevant leads on criminal offences of infringement and piracy. Focus will be placed on investigations into information underlining

infringement and piracy of well-known domestic publishing houses and publications as well as foreign right-holders, thus making every effort to uncovering and prosecuting a batch of major and important cases.

(VII) To study and formulate an intellectual property strategy for the IT industry, and establish an intellectual property early-warning system for the industry.

In order to ensure the uninterrupted execution of endeavors in such areas as industry-specific procurement, technological R&D and enterprise production while fending off potential IPR disputes, the Ministry of Information Industry (MII) will step up its efforts to establish an industry-wise intellectual property early-warning system.

(VIII) To formulate and promote the Plan on Trade Show Participants' Self-Discipline in IPR Protection.

The Ministry of Commerce, in a joint effort with relevant government authorities, has formulated and is promoting the Plan on Trade Show Participants' Self-Discipline in IPR Protection. It has put in place a rating system to monitor IPR protection efforts of show participants.

(IX) To promote the experience of Jiangsu Province in regulating the audio-visual products market.

In recent years, Jiangsu Province has been actively cultivating a demonstration market of legalized audio-visual products along the route between Shanghai and Ningbo, and has accumulated rich experience in rectifying and developing audio-visual products markets. The Ministry of Culture will convene a symposium to sum up and promote the experience of Jiangsu, and to pursue a lasting and effective mechanism for IPR protection in audio-visual markets.

(X) To enhance the transparency of judicial IPR protection

1. Well-equipped higher courts shall be urged to phase in the system of publishing effective IPR-related court verdicts on the Internet and the related online resources will be integrated. The China Court website will open a special column for IPR-related court verdicts supported by full-time staff, as a public window for promoting a fair and just IPR enforcement image.

2. A nationwide press release mechanism for news on judicial IPR enforcement will be established. With cooperation from relevant media organizations, typical cases will be selected for publishing on various

publications in a bid to give enhanced media coverage to cases of interest to the public and the achievements made. If possible, various localities will also be encouraged to conduct advocacy activities in English targeting foreign parties.

3. The Supreme People's Court has made the decision to found China Trial, a publication for court verdicts and trial information on IPR cases.

(XI) The Supreme People's Court has decided to devise an intricate system of "IPR Tribunal"

To process civil cases of IPR infringement, aiming at strengthening the trying of cases and increasing the civil liability of IPR infringers.

(XII) To intensify supervision and case-filing efforts so as to prevent and correct the practice of "Penalty for Criminal Liability" in cracking down on criminal IPR infringement cases.

Procuratorates of various levels will take the initiative to enhance communication and coordination with judicial enforcement bodies and public security authorities. To be more specific, procuratorates will approach judicial enforcement bodies such as industry and commerce administrations, drug administrations, culture authorities, press and publishing administrations and tobacco monopoly administrations for case information and reading of case files, which will enable them to timely detect cases that should have but have not been transferred by criminal enforcement bodies or cases that public security authorities refuse to open, and to offer counsel.

IV. Advocacy Plans

(I)Large-scale advocacy initiatives

1. A China IPR Protection Achievements Show will be staged on 16-23 April at the China Military Museum in Beijing.

2. An IPR Protection Week (20-26 April) will be launched in association with relevant authorities.

3. Foreign journalists will be invited to report on China's IPR protection efforts.

4. The Ministry of Public Security will introduce two large-scale advocacy initiatives in April and August respectively by holding press conferences and destroying pirated publications and infringing commodities.

5. The 8th Audio-Visual Products Market Legal Advocacy Campaign will be carried out nationwide in late April.

6. Central-level media groups will be led to different localities and enterprises to report on enterprises that have developed through proprietary intellectual property rights and typical IPR protection cases.

7. Researches and interviews will be conducted on IPR related hot topics and key issues to raise public awareness and look for effective solutions. Priority areas will include non-service invention-creation, patent-to-technology transformation and the IPR protection awareness of the younger generation.

8. Besides the CCTV Innovation Award, more activities are being attempted to encourage innovation and magnify the influence of the IPR protection regime.

(II)Press conferences

1. The "Ten Typical IPR Protection Cases of 2005",

2. China's latest progress in IPR protection,

3. A press conference by the State Council Information

Office on April 20 to release the White Paper on China's IPR Protection

(III)IPR-specific TV Programming

1. DVD programs featuring IPR protection will be produced, and illustrated books on IPR protection and pamphlets on IPR protection know-how will be published. All these materials will be issued directly in a focused way to ensure the continuity of the advocating effects.

2. Comprehensive reviews will be conducted on initiatives for educating middle-school students on IPR protection. "Copyright and Me", a TV program, will be in production with the CCTV Children's Program Unit.

3. Projects winning the "China Gold Patent Award" will be promoted to create an innovation-friendly environment.

4. Around April 1, central and local TV stations will be showing songs and TV programs on IPR protection to give more publicity to the function of the IPR system and to raise the social status of IPR.

5. TV series on typical IPR cases will be produced and played on TV stations nationwide.

6. The nomination and voting for the 3rd Female Inventor Award will continue. The award-giving ceremony will be held during the IPR Week. Advocacy initiatives will be boosted by promoting typical cases and mobilizing society-wide innovation activities

(IV). To publish books and print brochures

1. To print brochures on IPR protection at exhibitions and fairs and cooperate with related media (International Business Daily) and promote IPR Protection Measures at Exhibitions and Fairs.

2. To establish a special column on IPR protection in the magazine of China Customs and compile publications including Guidelines for Customs IPR Protection.

3. To publish IPR educating books for large and medium sized state-owned enterprises.

4. To publish a series of books on IPR for young people in the form of cartoon.

5. To publish a grand picture book introducing activities under "Protecting IPR: We Are in Action 2005" and typical examples of independent innovation in China.

(V) To strengthen promotion through websites

1. To launch the website of "China IPR Protection" in both Chinese and English versions.

2. To ensure a good effect of the English and Chinese columns at the website of the General Administration of Customs.

3. To fully utilize the website of China Trademark to engage in on-line promotion, enrich the website continuously and build China Trademark into an important communication platform between the Trademark Office and the general public from home and abroad.

4. To initiate special columns and topics on IPR at governmental websites and relating media.

(VI) To hold forums, symposiums and seminars

1. To hold and publicize the China International Cooperation Forum on Exhibition.

2. To hold the High-level Forum on IPR Protection on April 26.

3. To hold the China Academic Seminar on IPR protection 2006 in the Medical and Pharmaceutical Area in late March in Beijing.

4. To hold the China IPR and Innovation Development Forum 2006 during the IPR Week.

5. To hold the High-level Forum on IPR in Information Industry to conduct study and communication on the prominent IPR problems in IT development, with a view to improving the awareness and capacity of enterprises in IPR administration.

6. To hold the China Forum on IPR Criminal Protection 2006 in April in Shanghai, and invite the participation by US and European governments and companies and key Chinese enterprises.

7. To hold the International Forum on IPR protection at Exhibitions and Fairs so as to discuss experience and suggestions concerning IPR protection with relevant countries.

8. To hold four communication meetings with foreign invested enterprises, with the participation of economic and trade staff from foreign embassies and foreign chambers of commerce in China.

(VII) Others

1. To compile and publicize typical domestic and foreign-related trademark infringement cases on a regular basis.

2. To launch copyright protection columns on TV or in newspapers, or to educate widely on copyright protection through seminars and lectures.

3. To fix the first open day of SIPO on April 26, when the general public and staff from foreign embassies in China will be invited to visit the patent review and approval procedures and various service facilities and hear introduction on the role of China's IPR regime and the effects of IPR protection.

4. To widely promote the revised Guidelines on Patent Review across the country and further spread legal knowledge on patents.V. Plans on training and education

V. Plans on training and education

(I) To implement the Project of Fostering IPR Talents

The Project of Fostering IPR Talents will be launched in the IPR system throughout the country. In the 11th five-year plan, a team will be trained consisting of several hundreds of high-level talented people proficient at IPR international rules, several thousand of people engaged in patent management, review and administrative law enforcement, and tens of thousands of high-quality people working on IPR in enterprises, public institutions and patent intermediary agencies.

(II) IPR training for leading officials

1. To hold a "Training Program for Executives and Leading IPR Managers from Key Domestic Enterprises".

2. To hold a "IPR Training Program for Leaders and Staff from Local Offices of Rectification and Standardization of Market Order or Office on IPR Protection in May.

3. To hold a "Training Program on IPR Strategy for leaders at the Director-General level".

4. To hold a "Training Program on IPR Education in Institutions of Higher Education".

5. To hold a "Training Program for IPR Teachers of SIPO".

6. To hold a "Special Training Program for Commissioners of SIPO".

7. Public security delegations on IPR protection will be organized to visit the U.S. and Europe for acquiring information of foreign legal systems and law enforcement mechanisms, learning the advanced practice and experience of foreign law enforcement organs in using strategies and intelligence to fight against IPR infringing crimes.

(III) Training of law enforcement team

1. Three sessions of IPR training course will be organized with Germany for administrative law enforcement staff.

2. To hold seminars for local public security leading officials.

3. To hold training classes for grass-root police, improve the law enforcement ability and level through three aspects of law, IPR knowledge and enforcement tactics, and foster gradually a group of professionals.

4. To hold training and communication courses on IPR law enforcement.

5. To hold training courses on enforcement of IPR infringing cases among public security authorities.

6. To hold two sessions of training course on IPR protection at exhibitions and fairs for relevant domestic enterprises.

7. To hold training program for domestic and foreign small and medium sized enterprises on IPR protection at exhibitions and fairs.

8. Two sessions of training course will be held for administrative law enforcement staff in the cultural market, with the grass-root staff as the priority, to further improve the ability and skill of the law enforcement workforce to distinguish and monitor pirated audio-video products and illegal online games.

9. To enhance the IPR law enforcement training for front-line officials, especially on-the-spot personnel in charge of control on goods and postal items.

10. To proactively conduct professional training on trademark law enforcement, and subjects in relation with the transfer of trademark-related crimes and the handling of the conflicts between trademarks and the names of the enterprises, in a bid to improve the professional quality of trademark administrative enforcement personnel.

11. To reinforce the trainees' understanding of the importance of the IPR protection, enable them to understand more clearly the severity of situations at home and abroad and enhance their IPR protection awareness in the process when the State Food and Drug Administration is training its civil servants, personnel working for its subordinate institutions and certified pharmacists.

12. To organise for the backbone officials working for the departments in the system of the SIPO three sessions of training programs designed for advanced IPR managers and legal personnel.

13. To organise nationwide training program on patent administrative enforcement in a bid to launch in greater depth the training for patent-related law enforcement personnel.

14. To organise one to two sessions of training programs for IPR-specialised judges.

(IV) Basic education

To promote the "introduction of IPR education into communities, schools and enterprises".

VI. Plans on international exchange and cooperation

(I) To enhance international exchange and cooperation in legislation

1. A trip to Europe in January to study the European legal system for patent agency.

2. A trip to Europe in March to study the system of copyright protection on the Internet.

(II) To enhance the international exchange and cooperation in trademark protection

1. To maintain and strengthen the two-way exchanges, brainstorming, eye-opening endeavours with the trademark authorities of the countries and regions that have frequent exchanges with China, enhance the collaboration with them, and promote bilateral trade and investment.

2. To maintain and strengthen the exchanges and cooperation with international organisations including WIPO and WTO, actively participate in international trademark legal affairs including the negotiations on geographic indication protection and revision of the Trademark Law Treaty, and try to set out new international rules on trademark protection.

3. To understand the needs of overseas Chinese enterprises for trademark protection, and coordinate and protect trademark interests of Chinese enterprises in foreign countries in dealings with foreign countries.

(III) To enhance the international exchange and cooperation in copyright protection

1. To hold on a regular basis joint-conference of Sino-U.S. motion picture copyright protection coordination mechanism, sum up the experience of the Sino-U.S. motion picture copyright protection coordination mechanism, enhance the communication and understanding between China and the U.S., and continue the discussion about effective models for the strengthening of international IPR co-operation.

2. To continue the exchange and cooperation with international organisations such as WIPO, WTO, UNESCO and APEC in the sphere of copyright protection, actively participate in the multilateral negotiations and international conferences on the formulation of new international copyright rules.

3. To launch and develop proactively the cooperative relations in copyright protection with developing countries, especially Asian countries, and strive to change the international copyright protection regime that does not favour developing countries.

4. To enhance the cooperation with copyright-related industry organisations in foreign countries, jointly crack down on cross-border online infringement and piracy activities. To collaborate with foreign industry organisations such as the MPA and IFPI of the United States, and enhance the co-operation in the fields of information sharing, technical services, training, etc.

5. To invite international organisations to visit China and show them the China's achievements of IPR protection. To further strengthen the communication and exchanges with foreign IP right holders organisations, such as the IIPA.

(IV) To enhance the international exchange and co-operation in patent protection

1.To organise summit meetings between Chinese and American IPR authorities. Invited by the U.S. Patent & Trademark Office, Commissioner Tian Lipu will go to the U.S. for a meeting between the two commissioners.

2. To organise presentation meeting on China's IPR protection regime in Singapore, explaining mainly the IPR protection system of China in a bid to promote Sino-Singaporean trade and economic relations.

3. To organise a WIPO-SIPO circuit PCT seminar across the country in three cities in a period of 2 weeks.

4. To jointly organise with the U.S. Patent & Trademark Office a Sino-U.S. IPR seminar to discuss the protection of genetic resources and traditional knowledge, as requested by the U.S. side.

5. To organise an international seminar on genetic resource, traditional knowledge and folklore for the Asia-Pacific region.

6. To dispatch visiting scholars to the U.S. Patent & Trademark Office for training.

7. To dispatch people to the John Marshall Law School, the Franklin Pierce Law Centre, and the Law School of the University of Washington to study.

8. To organise symposium to solicit opinions on the revision of the Patent Law. To invite representatives of foreign embassies and consulates to attend the symposium where their opinions and recommendations on the third revision of the patent law will be learned.

(V) To enhance the international exchange and cooperation in customs IPR protection

To initiate the cooperation mechanism with the U.S. Customs Service regarding the "exchange of information and intelligence of IPR cases" under the framework of the JCCT.

VII. To promote the programs on enterprise self-discipline

(I) To organize an "Enterprises' IPR Protection and Indigenous Innovation Conference"

To organize in February an "Enterprise IPR Protection and Indigenous Innovation Conference" by China Enterprise Confederation, All-China Federation Of Industry and Commerce and China Association of Enterprises with Foreign Investment. To publish an Enterprise IPR Protection Proposal by the three sponsors, and sign jointly by Chinese and foreign enterprises attending the Congress a Proposal for Enterprises to Use Legal Software. To jointly signed by 15 departments under the State Council and the Supreme People's Court and the Supreme People's Procuratorate a Letter to Support "Enterprises' IPR Protection and Independent Innovation", and to publish by national enterprises an "IPR Protection Echoing Letter".

(II). To quickly formulate and implement the Working Program on Promoting Large Companies and Public Institutions to Use Legalized Software.

It is planned to publicize the Working Program on Promoting Large Companies and Public Institutions to Use Legalized Software. Starting from the second quarter, efforts in promoting companies to use legalized software will start.

(III). To intensify the administration of manufacturing and selling in the field of software pre-installation.

1. To encourage and request computer manufactures to pre-install legalized software before products leaving the factory.

2. To encourage government departments and large state-owned enterprises (SOEs) to buy brand name computers with pre-installed legalized software when purchasing office computers.

VIII. Plans on services for right holders

(I). To set up a patent data search system in the area of information technology.

To help companies enhance their capability in searching and analyzing patent information, solve practical problems of the companies in using IPR-related information, and to elevate their IPR management level.

(II). To further improve the efficiency in trademark registration, the accuracy and impartiality of trademark review decision and arbitration ruling of trademark-related disputes.

(III). To vigorously promote the establishment of phase III system of automated trademark registration and management.

To optimize the function of the trademark database online search system and China's trademark website and constantly improve the social service quality for trade registration and management.

(IV). To strengthen the well-known trademark recognition and protection efforts.

To summarize the experiences in recognizing and protecting well-known trademarks since the implementation of the new trademark law, make intensified efforts in recognizing and protecting well-know trademarks, and

to foster more advantaged companies with well-known trademarks and strong international competitiveness.

(V). To carry out targeted training on and popularization of trademark international registration knowledge.

To research and study on the overseas trademark protection situation of companies with well-known trademarks and foreign trade companies, and to carry out targeted training on and popularization of trademark international registration information.

(VI). To set up the National Intellectual Property Office Government Portal Website.

1. The general objective of the Website is, in line with the requirement to transform government functions, improve the quality of government information service, strengthen the rule-based administration capability of the government, enhance the transparency of government operation procedures, and to help the government better serve the general public, to set up a convenient, quick and efficient channel offering convenient services and serving as an interactive platform so that the general public can, through the portal website, keep abreast of the IPR developments and relevant IPR information in a timely manner.

2. The main contents of the Website include: patent application information, table download, patent protection, patent document, patent document search (free of charge), patent online consulting, laws and regulations, statistical information, etc.

3. Role of the Website: By setting up such a portal website, to further improve the quality of information service provided by the Intellectual Property Offices for the general public, and to play a more positive role in strengthening the protection over patent application, and promoting the popularization of patented technologies.

(VII). To hold symposiums to solicit opinions and suggestions.

1. To hold symposiums between Intellectual Property Offices and leading companies in different industries, where Chinese companies invested by Top Fortune 500 companies will be invited, to solicit their opinions and suggestions on patent review.

2. To organize symposiums with patent agents to ask for their opinions and suggestions on patent review done by the Intellectual Property Offices.

(VIII). To set up a feedback mechanism on patent review quality.

To preliminarily shaping up a relatively complete feedback mechanism for patent review quality, to promote the effective supervision over the patent review work of the Intellectual Property Offices by patent inventors, applicants, right holders and the general public.

(IX). To establish and improve intermediary agencies and industrial associations.

To intensify investigation and research efforts, propose policies and measures encouraging and supporting the establishment and development of intermediary institutions. To actively support and encourage industrial associations and social intermediary organizations to perform, and to give full play to their important role in serving the community and the industries, so as to forge a favorable interactive relationship in which the government is the supervisor and administrator, social entities safeguard their rights, and companies operate legally.

IX. Plans on subject research.

(I). To analyze the reasoning of China's accession to the Internet Treaty.

To have in-depth study on relevant developments in relation with China's accession to the Internet Treaty, and, on the basis of which and also in line with China's specific national conditions, to analyze the reasoning.

(II). To investigate and research on the issue of software legalization in the Chinese market.

To identify existing problems in the software legalization efforts, consolidate current results, and further promote the overall progress of this endeavor in order to ensure the sound development of China's software industry and the shaping up of an orderly market environment.

(III). To intensify the study on the customs' case handling procedures, rules on evidence and law enforcement difficulties in IPR cases, as well as their coordination with other law-enforcement bodies.

(IV). To continue the dedicated research on "IPR Issues in the Pharmaceutical Field".

To propose IPR policies and countermeasures for promoting and protecting the development of China's pharmaceutical industry.

(V). To launch key research on the issue of "Improving the judicial IPR protection mechanism".

To propose scientific measures and workable suggestions on how to further improve the IPR judicial protection mechanism with a view to facilitating the litigation process of the parties involved and the hearing process of the courts, optimizing the allocation of court resources, simplifying the remedy proceedings, and ensuring the judicial integrity.

Source: State Office of Intellectual Property Protection of the P.R.C; In case of any discrepancy, the original version shall prevail.

People's Daily Online --- http://english.people.com.cn/

Article 63 ***Transparency***

1. Laws and regulations, and final judicial decisions and administrative rulings of general application, made effective by any Member pertaining to the subject matter of this Agreement (the availability, scope, acquisition, enforcement and prevention of the abuse of intellectual property rights) shall be published, or where such publication is not practicable made publicly available, in a national language, in such a manner as to enable governments and right holders to become acquainted with them. Agreements concerning the subject matter of this Agreement which are in force between the government or a governmental agency of any Member and the government or
a governmental agency of any other Member shall also be published.

2. Members shall notify the laws and regulations referred to in paragraph 1 above to the Council for Trade-Related Aspects of Intellectual Property Rights in order to assist that Council in its review of the operation of this Agreement. The Council shall attempt to minimize the burden on Members
in carrying out this obligation and may decide to waive the obligation to notify such laws and regulations directly to the Council if consultations with the World Intellectual Property Organization on the establishment of a common register containing these laws and regulations are successful. The Council shall also consider in this connection any action required regarding notifications pursuant to the obligations under this Agreement stemming from the provisions of Article 6ter of the Paris Convention (1967).

3. Each Member shall be prepared to supply, in response to a written request from another Member, information of the sort referred to in paragraph 1 above. A Member, having reason to believe that a specific judicial decision or administrative ruling or bilateral agreement in the area of intellectual property rights affects its rights under this Agreement, may also request in writing to be given access to or be informed in sufficient detail of such specific judicial decisions or administrative rulings or bilateral agreements.

4. Nothing in paragraphs 1 to 3 above shall require Members to disclose confidential information which would impede law enforcement or otherwise be
contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private.

China urged to provide IP enforcement data
Emma Barraclough, Hong Kong

The US has renewed its call for China to clarify what measures it has taken to enforce IP laws and outlined the legal basis it believes it has for making the request under the WTO TRIPs Agreement.

In October, the US, Japanese and Swiss governments asked China to provide details of its efforts to enforce IP laws to help them assess whether the country is doing enough to tackle infringement.

The three countries invoked a clause in the TRIPs Agreement. The clause allows WTO member states to request information about another country's IP-related judicial decisions and administrative rulings if they affect its rights under TRIPs. A statement issued by the United States Trade Representative at the time said they expected a response from China in around three months.

But in a letter dated December 22, China sought clarification about the kind of information the US was seeking and, in particular, queried whether the Chinese government had any obligation to provide it.

"We have noted with concern your statement that 'Article 63.3 of the TRIPs Agreement only refers to a Member's request for information, but there is no mention of a corresponding obligation of the requested member to actually follow the request'," Peter Allgeier, US ambassador to the WTO told his Chinese Sun Zhenyu in a letter last week.

The letter urged China to provide the information requested in October.

If the US brings a complaint to the WTO accusing China of failing to meet its obligations under TRIPs to provide an effective deterrent to IP infringement, it is vital that it has detailed data about China's enforcement record to back up its case.

In October, Rob Portman, US Trade Representative, said: "Our goal is to get detailed information that will help pinpoint exactly where the enforcement system is breaking down so we can decide appropriate next steps."

CIVIL JUDGMENT OF THE SECOND INTERMEDIATE PEOPLE'S COURT OF BEIJING MUNICIPALITY, THE PEOPLE'S REPUBLIC OF CHINA

(2005) *Er Zhong Min Chu Zi* No. 13596

Plaintiff

Prada S.A., with its domicile at 23 Rue Aldringen, Luxembourg, the Grand Duchy of Luxembourg.
Legal representative: Salomoni Marco
Appointed agents: Wang Yadong, lawyer with Hankun Law Offices
Gao Hualing, lawyer with Hankun Law Offices

Defendants

Li Caiping, female, of Han ethnicity, born July 19, 1982, former tenant of Beijing Xiushui Haosen Clothing Building, resident of Xiaojinmen Village, Shichang Township, Linhai, Zhejiang, the People's Republic of China.
Appointed agents: Pang Yufeng, lawyer with Li Wen & Partners
Xu Xiaobin, lawyer with Li Wen & Partners

Beijing Xiushui Haosen Clothing Market Co., Ltd., with its domicile at 8 Xiushui Dong Jie, Beijing, the People's Republic of China.
Legal representative: Li Yanhong, chairman of the board
Appointed agents: Yu Danzhen, lawyer with Beijing Ocean Law Firm
Zhang Weifeng, lawyer with Beijing Ocean Law Firm

After this Court accepted the suit by the Plaintiff, Prada S.A ("Prada"), against the Defendants, Li Caiping and Beijing Xiushui Haosen Clothing Market Co., Ltd. ("Xiushui Haosen"), in a dispute over infringement of the exclusive right to use a registered trademark, it organized a collegiate bench in accordance with the law and tried the case in open court. The appointed agents of Prada, Wang Yadong and Gao Hualing, of Li Caiping, Pang Yufeng and Xu Xiaobin, and of Xiushui Haosen, Yu Danzhen and Zhang Weifeng, took part in the trial in person. The trial of this case is now concluded.

Plaintiff's claim:

The Plaintiff registered the trademark "PRADA" in the People's Republic of China in accordance with the law and obtained the exclusive right to use the registered trademark. An infringement of the Plaintiff's exclusive right to use the registered trademark was discovered in the Xiushui Jie Mall

managed by Xiushui Haosen. After it had its purchase of implicated infringing products notarized, the Plaintiff promptly sent a letter to Xiushui Haosen demanding that it immediately halt the aforementioned infringement. However, Xiushui Haosen failed to halt the same, thus permitting the infringement to continue. The sales by Li Caiping constituted infringement of the Plaintiff's exclusive right to use the registered trademark. Xiushui Haosen not only failed to halt such infringement, but, on the contrary, provided a place of business therefor, thus conniving with the continuing infringement. Pursuant to the *Implementing Regulations for the Trademark Law of the People's Republic of China*, its act constitutes provision to another of conditions facilitating infringement, and joint infringement with Li Caiping. Accordingly, the Plaintiff brought suit against them in court and requested that Li Caiping and Xiushui Haosen be ordered to cease and desist from their infringement and jointly compensate the Plaintiff in the amount of RMB¥500,000 for financial losses and reasonable expenses incurred in bringing the suit.

Li Caiping's claim in her defense:

Although the Plaintiff had established that she personally had sold merchandise bearing its registered trademark, this did not establish that such merchandise was infringing. Furthermore, she had only sold two pieces of the infringing products, thus the Plaintiff had not incurred a material loss and, therefore, she did not agree with the claims made by the Plaintiff.

Xiushui Haosen's claim in its defense:

As the service management organization for the market, it had actively endeavored to protect the Plaintiff's registered trademark. The company had executed a lease contract with Li Caiping who had independent operating status. The company had no authority to exercise administrative authority over her. Li Caiping should be solely liable for her implicated infringement, as the company had not provided to her conditions facilitating the infringement and there was no deliberate intent on its part to commit infringement. Accordingly, it did not agree with the claims made by the Plaintiff.

Through the trial, this Court ascertained the following facts:

Prada applied to the Trademark Office of the State Administration for Industry and Commerce of the People's Republic of China for the registration of the trademark "PRADA" for goods in Class 18 in accordance with the law and, after examination and approval, obtained the exclusive right to use the registered trademark from April 14, 1999 to April 13, 2009. The goods in

Class 18 on which Prada's use of the trademark has been approved includes handbags, purses/pocket wallets, garment bags for travel, etc.

Xiushui Haosen was established on April 27, 2004 with its scope of business including operating Beijing Xiushui Haosen Clothing Market, dealing in merchandise which has been introduced to the market, etc. Thereafter, it recruited businesses for the Xiushui Jie Mall and operated and managed the same. On February 23, 2005, Li Caiping executed a stall lease contract with Xiushui Haosen, obtaining stall number F2-48 for a two-year lease of RMB¥326,400. The merchandise which she obtained approval to deal in was cases. On April 18 of the same year she obtained her individual proprietorship business license from the Administration for Industry and Commerce of Chaoyang District, Beijing, the People's Republic of China and commenced business.

Between April 25 and May 8, 2005, the Plaintiff purchased, under notarization, from Li Caiping's stall one woman's bag bearing the "PRADA" mark. On May 16 of the same year, the Plaintiff sent a letter to Xiushui Haosen informing it that the sale of merchandise infringing the Plaintiff's exclusive right to use its registered trademark was occurring in Xiushui Haosen's market and listing the stall numbers of the sellers, one of which was the stall operated by Li Caiping. In the lawyer's letter, the Plaintiff demanded that Xiushui Haosen promptly take strong measures to halt the aforementioned infringement. On June 3 of the same year, the Plaintiff again purchased, under notarization, from Li Caiping's stall one handbag bearing the "PRADA" mark. On September 15 of the same year, the Plaintiff brought suit in court. On September 28 of the same year, Xiushui Haosen terminated its lease contract with Li Caiping and announced the same in the market. Thereafter, it requested that the relevant Administration for Industry and Commerce revoke Li Caiping's individual proprietorship business license. On September 29 of the same year, Xiushui Haosen again executed with each leased stall an undertaking to put an end to the sale of counterfeit merchandise. On October 31 of the same year, the Plaintiff again purchased handbags bearing the "PRADA" mark from other stalls in the Xiushui Jie Mall. During the aforementioned purchase action, the Xiushui Jie Mall issued to the purchaser tax invoices bearing the seal of the Beijing, Chaoyang District Office of the State Administration of Taxation. The box on the invoice for "description of the merchandise" did not have the brand of the merchandise.

During the case, Li Caiping provided to the Court a record of her sale of the alleged infringing products, the quantity of which was two. Prada did not accept such exhibit as true.

It was additionally ascertained that:

On July 20, 2004, the Administration for Industry and Commerce of Beijing Municipality, the People's Republic of China issued a circular strictly prohibiting the sale in malls of merchandise that infringes another person's exclusive rights to use his registered trademark, which included the trademark "PRADA". Xiushui Haosen posted the circular at the entrance of the market and in each stall. On March 19 of the same year, Xiushui Haosen issued the "Points To Note When Issuing Invoices", requiring that invoices not be issued for the aforementioned brand merchandise published by the Administration for Industry and Commerce of Beijing Municipality, the People's Republic of China, and posted the same in the market. On March 23 of the same year, Xiushui Haosen together with several other markets issued the Proposal on Implementing the Circular Issued by the Beijing Municipal Administration for Industry and Commerce; furthermore, it created the Market "Management Department Compilation of Rules and Regulations" to put an end to the sale of infringing merchandise in the market, and actually penalized certain merchants who violated regulations.

The foregoing facts are corroborated by the following evidence on record: Trademark Registration Certificate no. 1263052 from the Trademark Office of the State Administration for Industry and Commerce of the People's Republic of China, the notarial deeds issued by Guoxin Notary Office of the People's Republic of China and Changan Notary Office of the People's Republic of China, lawyer's letters from Hankun Law Offices, the lease contract executed by Li Caiping and Xiushui Haosen, the Circular of the Beijing Municipal Administration for Industry and Commerce, the Proposal on Implementing the Circular Issued by the Beijing Municipal Administration for Industry and Commerce issued by Xiushui Haosen together with several other markets, the Market Management Department Compilation of Rules and Regulations compiled by Xiushui Haosen, penalty sheets, court notes, etc.

Held:

Pursuant to relevant provisions of the *Trademark Law of the People's Republic of China*, the exclusive right to use a registered trademark is limited to the approved registered trademark and the merchandise on which its use is approved. The sale of merchandise which infringes the exclusive right to use a registered trademark constitutes an infringement of the exclusive right to use a registered trademark. Firstly, the issue of whether the implicated sales by Li Caiping infringe the Plaintiff's exclusive right to use its registered trademark. In this case, the handbags bearing the "PRADA" mark sold by Li Caiping and the trademark registered for goods in

Class 18 by the Plaintiff* are goods in the same class and the basis for the claim by the Defendants that the alleged infringing merchandise are not in the same class of goods is insufficiently corroborated, therefore it is rejected by this Court. Such handbags were not lawfully licensed and were not obtained from a lawful source, therefore such handbags are merchandise which infringes the Plaintiff's exclusive right to use its registered trademark. The Beijing Administration for Industry and Commerce has expressly prohibited the distribution in clothing markets and small merchandise markets in the administrative territory of Beijing Municipality merchandise which bears trademarks for which no license was obtained from the trademark rights holder. Li Caiping, as a seller in the Xiushhui Jie Mall, should have been aware that the implicated handbags which she was selling were infringing merchandise. Accordingly, Li Caiping's acts constitute infringement against the Plaintiff's exclusive right to use its registered trademark and she should bear civil liability by halting the infringement and paying compensation for the losses incurred.

Second is the issue of whether the implicated acts of Xiushui Haosen constitute infringement. Pursuant to relevant provisions of the *Implementing Regulations for the Trademark Law of the People's Republic of China*, the intentional provision of conditions facilitating the infringement of another's exclusive right to use a registered trademark, such as storage, transportation, mailing or concealment, constitutes infringement of another's exclusive right to use the registered trademark. With respect to Xiushui Haosen's acts, the Plaintiff requested that the company and Li Caiping be ordered to jointly bear legal liability by halting the infringement and compensating for the losses incurred. As the operator and manager of the Xiushui Jie Mall, Xiushui Haosen has an obligation to timely and effectively halt the infringement of other persons' exclusive right to use their registered trademarks which occur in the market. After the first occasion on which it purchased the infringing product, the Plaintiff notified Xiushui Haosen by letter. Although it expressly pointed out the number of the stall leased by Li Caiping in the letter, Xiushui Haosen failed to take any preventive measures against Li Caiping to halt the continuation of her infringement. For a period of time thereafter, Li Caiping continued the infringement. Although Xiushui Haosen terminated Li Caiping's lease contract after the Plaintiff brought the suit, infringement by others of the Plaintiff's exclusive right to use its registered trademark continued in the market. From the foregoing facts it can be seen that, although Xiushui Haosen took certain measures to prevent the infringement of other persons' exclusive right to use their registered trademarks, an objective analysis shows that, firstly, it failed to take measures after the first notification from the Plaintiff and, secondly, while the case was pending, infringement of the Plaintiff's exclusive right to use its registered trademark continued in Xiushui Haosen's market. The foregoing

circumstances demonstrate that, in this case, the preventive measures taken by Xiushui Haosen against the infringement committed by Li Caiping were not timely, enabling Li Caiping to continue the sale of infringing merchandise for a period of time. Therefore, Xiushui Haosen may be held to have provided conditions facilitating the infringement by Li Caiping. Accordingly, pursuant to relevant laws of the People's Republic of China, Xiushui Haosen should bear joint and several legal liability with Li Caiping for the consequences arising from her infringement. As the defense asserted by Xiushui Haosen lacks basis, this Court rejects it.

Given that the Plaintiff did not provide any evidence in support of the actual losses it incurred or the benefits obtained by the infringers, this Court has taken into account the relevant provisions of the Trademark Law and made its determination by comprehensively taking into consideration such factors as the length of time the Plaintiff's registered trademark has been registered, its degree of notoriety among the public, the term of operation of the infringers, the subjective degree of bad faith on their part, etc. This Court also upholds the reasonable portion of the expenses paid in connection with this case by the Plaintiff and claimed by it.

Summarizing the foregoing, pursuant to Article 51, items (2) and (5) of Article 52 and the first and second paragraphs of Article 56 of the *Trademark Law of the People's Republic of China*, item (2) of Article 50 of the *Implementing Regulations for the Trademark Law of the People's Republic of China* and Article 130 and items (1) and (7) of Article 134 of the *General Provisions of the Civil Code of the People's Republic of China*, we issue the following judgment:

1. Li Caiping and Beijing Xiushui Haosen Clothing Market Co., Ltd. shall promptly cease their infringement of the exclusive right to use the registered trademark "PRADA" upon the entry into effect of this Judgment;

2. Within 10 days of the entry into effect of this Judgment, Li Caiping and Beijing Xiushui Haosen Clothing Market Co., Ltd. shall jointly pay compensation to Prada S.A. for financial losses in the amount of RMB¥10,000 and the reasonable expenses incurred by Prada S.A. in connection with this case in the amount of RMB¥10,000.

3. The other claims by Prada S.A are rejected.

Prada S.A. shall bear RMB¥2,010 (paid) of the case acceptance fee of RMB¥10,010 and Li Caiping and Beijing Xiushui Haosen Clothing Market

Co., Ltd. shall jointly bear RMB¥8,000 thereof (to be paid within seven days of the entry into effect of this Judgment).

In the event of dissatisfaction with this Judgment, Prada S.A, or Li Caiping or Beijing Xiushui Haosen Clothing Market Co., Ltd. may, respectively within 30 days or 15 days of the date of service hereof, appeal to the Higher People's Court of Beijing Municipality, the People's Republic of China by submitting to this Court an appeal and duplicates thereof in a number equal to the number of opposing parties.

Presiding judge:Shao Mingyan

Alternate judge: He Xuan

Alternate judge: Zhang Xiaojin

(Sealed) Beijing Second Intermediate People's Court

December 19, 2005

Clerk: Zhou Xiaobing

WTO Panel Report on Consistency of Chinese Intellectual Property Standards

By James Mendenhall

April 3, 2009

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On March 20, 2009, the World Trade Organization (WTO) Dispute Settlement Body adopted the report of the dispute settlement panel in China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights (China – IPR).[1] The report addressed three claims brought by the United States alleging that certain Chinese measures are inconsistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).[2] The panel upheld, at least in part, two of the three U.S. claims, but found that the United States did not present sufficient evidence to support its most important allegation, i.e., that certain volume and value thresholds established for defining criminal counterfeiting and piracy are inconsistent with TRIPS.

Previous dispute settlement decisions had touched on the general enforcement obligations in TRIPS, but only in a superficial way. The panel in the China-IPR dispute was thus faced with a series of novel questions, and, as would be expected, the standards adopted by the panel merit further refinement. For example, while the report draws a roadmap for framing future claims regarding criminal thresholds, it is less clear how a government could apply some of the standards before bringing a claim. Still, the report may provide a basis for further engagement with China on the issue of IPR enforcement and may, therefore, ultimately lead to stronger IPR protection.

Criminal Thresholds

Under Chinese law, acts of counterfeiting and piracy are criminal only if the amount of infringing material exceeds certain quantity or value thresholds, e.g., 500 copies of a DVD or approximately $7,000 worth of counterfeit goods.[3] The United States alleged that the thresholds create a safe harbor for businesses engaged in commercial activities such as distribution of infringing products and are inconsistent with Article 61 of the TRIPS Agreement, which requires the criminalization of "wilful trademark counterfeiting or copyright piracy on a commercial scale." In support of this claim, the United States provided, along with the measures themselves,

industry reports detailing the volume of infringing material seized during police raids (which in many cases fell below the thresholds) and other anecdotal data.[4]

The critical issue with respect to this claim was the meaning of the phrase "commercial scale," a term never before interpreted by a WTO panel or the Appellate Body. The panel concluded that "commercial scale" activity means something different than "commercial" activity. Specifically, the term "commercial scale" implies a certain size threshold and not a qualitative assessment of the purpose of the activity. Furthermore, according to the panel, the threshold cannot be interpreted in the abstract but varies with respect to individual products and markets. According to the panel, "counterfeiting or piracy 'on a commercial scale' refers to counterfeiting or piracy carried on at the magnitude or extent of typical or usual commercial activity with respect to a given product in a given market."[5] In any given case, commercial scale "may be large or small. The magnitude or extent of typical or usual commercial activity relates, in the longer term, to profitability."[6]

Despite the panel's reference to profitability, there is no indication that the panel believed that profitability is the critical defining characteristic for "commercial scale" activity. In fact, the panel appeared to conclude that the profitability or purpose of an individual operation is irrelevant. Under the standard enunciated by the panel, the critical question is whether the infringing activity is equal to or larger than the usual size of a business operation with respect to a given product or market. While the panel recognized that the Chinese measures "exclude certain commercial activity from criminal procedures and penalties," it found that this was insufficient to prove that the measures are inconsistent with TRIPS.[7]

The panel emphasized the importance of evidence to establish a claim that quantitative thresholds are inconsistent with Article 61. It found that "the United States did not provide data regarding products and markets or other factors that would demonstrate what constituted 'a commercial' scale in the specific situation in China's marketplace."[8] According to the panel, the press articles that the United States provided were merely anecdotal, while the raid data did not provide enough context to assess how the seized quantities related to typical or usual commercial activity with respect to the market and product at issue.[9]

While the panel report provides a roadmap for litigating future claims, it possibly fails to provide clear guidance for governments seeking to ensure that national laws comply with their TRIPS obligations, at least to the extent that they wish to use thresholds. (In fact, very few countries use thresholds as opposed to more qualitative standards). If "commercial scale" differs for each product and market, then lawmakers attempting to comply with TRIPS Article 61 will seemingly be required to define criminal counterfeiting and

piracy by (1) devising separate thresholds for each product and market; (2) setting a uniform threshold at the lowest level of commercial scale activity for any product or market covered by the law; or (3) eliminating thresholds altogether in favor of a qualitative definition of commercial scale activity.

The first option appears untenable as a practical matter, and any such system would be complex and inconsistent. Two acts of piracy or counterfeiting could involve different products, but result in identical levels of infringement. Under the standard adopted by the panel, the TRIPS Agreement might require that one type of activity be criminalized and the other not, depending on whether the activity was larger or smaller than usual commercial activity with respect to the product or market in question.

The second option – a single, least-common-denominator threshold – is likely more workable in that it only requires one threshold. However, unless the government could conduct a comprehensive review of all relevant products and markets within its jurisdiction to identify the lowest permissible threshold, the default threshold would likely need to be very low (or zero) to ensure that all commercial scale activity is captured. Those who support strong IP protection may prefer this policy, though it is not clear that this was the result the panel intended.

The third option – a qualitative threshold – may be the best way forward, though "commercial scale" does not readily lend itself to a simple qualitative definition if, as the panel suggests, the term is wholly divorced from the question of whether the underlying activity serves a commercial purpose.

Copyright Protection Denied for Prohibited Works

The second claim focused on the fact that China denies copyright protection to works containing content deemed to be prohibited, e.g., content that would disrupt public order or social stability, or "jeopardize social ethics or fine national cultural traditions."[10] The United States claimed that Article 5(1) of the Berne Convention, which is incorporated into the TRIPS Agreement, requires copyright protection for such works. The United States also asserted that the Chinese law is inconsistent with TRIPS Article 41.1, which requires the availability of specified enforcement procedures. Finally, the United States argued that, by denying copyright protection to prohibited works, the Chinese law foreclosed the availability of such procedures.

The panel upheld the U.S. claims, concluding that there is no contradiction between, on the one hand, censoring works and, on the other hand, providing copyright protection to the censored material.[11]

Release of Seized Counterfeit Goods Into the Stream of Commerce

China's customs regulations give customs authorities the following options for disposing of IPR-infringing goods seized at the border: (i) Customs may hand the goods over to public welfare bodies for public welfare undertakings; (ii) if the holder of the intellectual property wishes to buy the goods, Customs may sell them; (iii) if the first two options are not possible, and if Customs can "eradicat[e] the infringing features," then the goods may be auctioned; or (iv) when eradication is impossible, Customs may destroy the goods.[12]

The United States argued that the customs regulations are inconsistent with Article 59 of the TRIPS Agreement, which requires that competent authorities have the authority to order destruction or disposal of infringing goods. The United States asserted that the Chinese regulations created a "compulsory scheme" that precluded destruction or proper disposal of infringing goods if one of the first two options listed above were possible.[13] The panel rejected China's claim that customs authorities were not authorized to destroy or properly dispose of infringing goods in large part based on China's clarification of the powers granted to its authority.

The panel accepted the U.S. claim that the third option in the Chinese regulations is inconsistent with TRIPS Article 46, (as referenced in TRIPS Article 59), stating that "the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional circumstances, to permit release of the goods into the channels of commerce."[14]

One point in the panel's reasoning is of particular interest. TRIPS Article 59 requires that competent authorities "shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in article 46." The panel report made it clear that "[t]he obligation is to 'have' authority not an obligation to 'exercise' authority."[15] According to the panel, "the obligation that competent authorities 'shall have the authority' to make certain orders is not an obligation that competent authorities shall exercise that authority in a particular way, unless otherwise specified."[16] The United States had not challenged the manner in which China applied its customs regulations, but only the regulations as such. Thus, this statement does not preclude a future WTO claim, based on appropriate factual evidence, that the authority granted to an enforcement authority is never used and is effectively a nullity. Such a claim might be based not only on Article 59 but also Article 41 of the TRIPS Agreement, which requires that enforcement procedures be "available . . . so as to permit effective action against any act of infringement. . . ." Assembling the necessary evidence could be challenging, however.

Conclusion

China will now have a reasonable period of time to implement the panel's recommendations with respect to the latter two claims discussed above. The two claims that the United States won are relatively discrete, and China can comply with the related rulings through surgical amendments to its regulations. Whether the panel's finding on the thresholds claim will have a significant impact on China's IPR enforcement regime remains to be seen. Significantly, the panel did not find that China's criminal enforcement scheme was consistent with TRIPS Article 61, but only that United States had failed to prove its claims. Consequently, the panel report gives a roadmap for future challenges that should be of interest to private parties adversely affected by China's current thresholds or any other thresholds of a similar nature. At the very least, the report may provide a basis for further constructive dialogue with China.

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Endnotes

[1] Panel Report, China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights, WT/DS362/R (Jan. 26, 2009), available at http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm [hereinafter IP Panel Report].
[2] Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), available at http://www.wto.org/english/docs_e/legal_e/27-trips.pdf.
[3] IP Panel Report, paras. 7.399 – 7.414.
[4] See id. para. 7.622.
[5] Id. para. 7.577.
[6] Id.
[7] Id. para. 7.609.
[8] Id. para. 7.614.
[9] See, e.g., para. 7.626.
[10] See id. para. 7.79.
[11] See id. para. 7.191.
[12] Id. paras. 7.193 – 7.196.
[13] Id. para. 7.197.
[14] Id. para. 7.362.
[15] Id. para. 7.236.
[16] Id. para. 7.238.

Class 7 TRIPS Derogations: Article 13 TRIPS (Copyright)

[The United States passed the "Fairness in Music Licensing Act" in 1998, which placed limitations on the exclusive rights of performers to authorize performance of their works in restaurants and retail establishments. At the behest of the Irish Musical Rights Organization [IMRO], the European Communities brought a complaint to the WTO DSB, asserting that the new U.S. legislation violated its rights under the TRIPS Agreement, because it was not within the scope of Article 13 TRIPS. The relevant provisions of the Berne Convention, the TRIPS Agreement, and the U.S. legislation are set out below, followed by the discussion of the WTO Panel.]

Berne Convention for the Protection of Literary and Artistic Work Paris Act of July 24, 1971, as amended on September 28, 1979

Article 9 ***Right of Reproduction: Possible exceptions***

(2) It shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.

Article 11 ***Right of public performance and of communication to the public of a performance***

(1) Authors of dramatic, dramatico-musical and musical works shall enjoy the exclusive right of authorizing: (ii) any communication to the public of the performance of their works.

Article 11*bis* ***Broadcasting and other wireless communications, public communication of broadcast by wire or rebroadcast, public communication of broadcast by loudspeaker or analogous instruments***

(1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing: … (iii) the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of the work.

TRIPS Agreement

SECTION 1: COPYRIGHT AND RELATED RIGHTS

Article 9 ***Relation to Berne Convention***

1. Members shall comply with Articles 1-21 and the Appendix of the Berne Convention (1971). 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.

Article 13 ***Limitations and Exceptions***

Members shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.

U.S. Copyright Act of 1976
as Amended by the Fairness in Music Licensing Act of 1998
Limitations and Exceptions
17 U.S.C. §110(5)(A)

Notwithstanding the provisions of Section 106, the following (performances) are not infringements of copyright:

5(A) on "homestyle apparatus" unless

5(A)(i) there is a direct charge to see or hear the performance, or

5(A)(ii) the transmission thus received is further transmitted

5(B) communication by an establishment of a transmission of … a nondramatic musical work originated by a radio or television station, if [it takes place] (i) in other than a food service or drinking establishment ["retail"] which is less than 2,000 square feet in area, and–

(I) the (audio) performance is on less than 6 speakers, or

(II) the (video) performance is on less than four 55" video devices

Or if [it takes place] (ii) in a food service or drinking establishment which is less than 3,500 square feet in area, and

(I) the (audio) performance is on less than 6 speakers, or

(II) the (video) performance is on less than four 55" video devices

UNITED STATES—SECTION 110(5) OF THE U.S. COPYRIGHT ACT
Report of the Panel (WTO DSB, June 15, 2000), WT/DS160/R

…D. SUBSTANTIVE ASPECTS OF THE DISPUTE

1. General considerations about the exclusive rights concerned and limitations thereto…

(b) *"Certain special cases"*

(i) General interpretative analysis. . . .

The United States submits that the fact that the TRIPS Agreement does not elaborate on the criteria for a case to be considered "special" provides Members flexibility to determine for themselves whether a particular case represents an appropriate basis for an exception. But it acknowledges that the essence of the first condition is that the exceptions be well-defined and of limited application.

In the view of the European Communities, an exception has to be well-defined and narrow in scope to meet the requirements under the first condition. . .

The European Communities argues that, in the light of the wording of the first condition in Article 9(2) of the Berne Convention (1971), which forms part of the context of Article 13, an exemption should serve a "special purpose". For the European Communities, in the case of Section 110(5), no such special public policy or other exceptional circumstance exists that would make it inappropriate or impossible to enforce the exclusive rights conferred by Articles 11 and 11*bis* of the Berne Convention (1971). In the EC view, the subparagraphs of Section 110(5) do not pursue legitimate public policy objectives.

In the US view, if the purpose of an exception is relevant at all, the TRIPS Agreement only requires that an exception has a specific policy objective. It does not impose any requirement as to the legitimacy of the policy objectives that a particular country might consider special in the light of its own history and national priorities.

We start our analysis of the first condition of Article 13 by referring to the ordinary meaning of the terms in their context and in the light of its object and purpose. It appears that the notions of "exceptions" and "limitations" in the introductory words of Article 13 overlap in part in the sense that an "exception" refers to a derogation from an exclusive right provided under national legislation in some respect, while a "limitation" refers to a reduction of such right to a certain extent.

The ordinary meaning of "certain" is "known and particularised, but not explicitly identified", "determined, fixed, not variable; definitive, precise, exact."[111] In other words, this term means that, under the first condition, an exception or limitation in national legislation must be clearly defined. However, there is no need to identify explicitly each and every possible situation to which the exception could apply, provided that the scope of the exception is known and particularised. This guarantees a sufficient degree of legal certainty.

We also have to give full effect to the ordinary meaning of the second word of the first condition. The term "special" connotes "having an individual or limited application or purpose", "containing details; precise, specific", "exceptional in quality or degree; unusual; out of the ordinary" or "distinctive in some way."[112] This term means that more is needed than a clear definition in order to meet the standard of the first condition. In addition, an exception or limitation must be limited in its field of application or exceptional in its scope. In other words, an exception or limitation should be narrow in a quantitative as well as a qualitative sense. This suggests a narrow scope as well as an exceptional or distinctive objective. **T**o put this aspect of the first condition into the context of the second condition ("no conflict with a normal exploitation"), an exception or limitation should be the opposite of a non-special, i.e., a normal case.

The ordinary meaning of the term "case" refers to an "occurrence", "circumstance" or "event" or "fact."[113] For example, in the context of the dispute at hand, the "case" could be described in terms of beneficiaries of the exceptions, equipment used, types of works or by other factors.

[111] The New Shorter Oxford English Dictionary ("Oxford English Dictionary"), Oxford (1993), p. 364. [112]Oxford English Dictionary, p. 2971.

[113] Oxford English Dictionary, p. 345.

[114] We note that the term "special purpose" has been referred to in interpreting the largely similarly worded Article 9(2) of the Berne Convention (1971). *See* Ricketson, The Berne Convention, op. cit., p. 482. We are ready to take into account "teachings of the most highly qualified publicists of the various nations" as a "subsidiary source for the determination of law". We refer to this phrase in the sense of Article 38(d) of the Statute of the International Court of Justice which refers to such "teachings" (or, in French "la doctrine") as "subsidiary means for the determination of law." But we are cautious to use the interpretation of a term developed in the context of an exception for the reproduction right for interpreting the same terms in the context of a largely similarly worded exception for other exclusive rights conferred by copyrights.

As regards the parties' arguments on whether the public policy purpose of an exception is relevant, we believe that the term "certain special cases" should not lightly be equated with "special purpose."[114] It is difficult to reconcile the wording of Article 13 with the proposition that an exception or limitation must be justified in terms of a legitimate public policy purpose in order to fulfill the first condition of the Article. We also recall

in this respect that in interpreting other WTO rules, such as the national treatment clauses of the GATT and the GATS, the Appellate Body has rejected interpretative tests which were based on the subjective aim or objective pursued by national legislation. [cits.]

In our view, the first condition of Article 13 requires that a limitation or exception in national legislation should be clearly defined and should be narrow in its scope and reach. On the other hand, a limitation or exception may be compatible with the first condition even if it pursues a special purpose whose underlying legitimacy in a normative sense cannot be discerned. The wording of Article 13's first condition does not imply passing a judgment on the legitimacy of the exceptions in dispute. However, public policy purposes stated by law-makers when enacting a limitation or exception may be useful from a factual perspective for making inferences about the scope of a limitation or exception or the clarity of its definition.

In the case at hand, in order to determine whether subparagraphs (B) and (A) of Section 110(5) are confined to "certain special cases", we first examine whether the exceptions have been clearly defined. Second, we ascertain whether the exemptions are narrow in scope, *inter alia*, with respect to their reach. In that respect, we take into account what percentage of eating and drinking establishments and retail establishments may benefit from the business exemption under subparagraph (B), and in turn what percentage of establishments may take advantage of the homestyle exemption under subparagraph (A). On a subsidiary basis, we consider whether it is possible to draw inferences about the reach of the business and homestyle exemptions from the stated policy purposes underlying these exemptions according to the statements made during the US legislative process.

(ii) The business exemption of subparagraph (B)

As noted above, the United States argues that the essence of the first condition of Article 13 of the TRIPS Agreement is that exceptions be well-defined and of limited application. It claims that the business exemption of subparagraph (B) meets the requirements of the first condition of Article 13, because it is clearly defined in Section 110(5) of the US Copyright Act by square footage and equipment limitations.

. . . .

The European Communities contends that the business exemption is too broad in its scope to pass as a "certain special case", given the large number of establishments which

potentially may benefit from it. For the European Communities, it is irrelevant that the size of establishments and the type of equipment are clearly defined, when the broad scope of the business exemption turns an exception into the rule.

It appears that the European Communities does not dispute the fact that subparagraph (B) is clearly defined in respect of the size limits of establishments and the type of equipment that may be used by establishments above the applicable limits. The primary bone of contention between the parties is whether the business exemption, given its scope and reach**,** can be considered as a "special" case within the meaning of the first condition of Article 13.

The Congressional Research Service ("CRS") estimated in 1995 the percentage of the US eating and drinking establishments and retail establishments that would have fallen at that time below the size limits of 3,500 square feet and 1,500 square feet respectively. Its study found that: (d)65.2 per cent of all eating establishments; (e) 71.8 per cent of all drinking establishments; and (f) 27 per cent of all retail establishments would have fallen below these size limits.

The United States confirms these figures as far as eating and drinking establishments are concerned.

We note that this study was made in 1995 using the size limit of 3,500 square feet for eating and drinking establishments, and the size limit of 1,500 square feet for retail establishments, while the size limits under subparagraph (B) now are 3,750 square feet for eating and drinking establishments and 2,000 square feet for retail establishments. Therefore, in our view, it is safe to assume that the actual percentage of establishments which may fall within the finally enacted business exemption in the Fairness in Music Licensing Act of 1998 is higher than the above percentages.

The United States has also submitted estimates by the National Restaurant Association (NRA) concerning its membership. According to these estimates, 36 per cent of its table service restaurant members (i.e., those with sit-down waiter service) are of a size less than 3,750 square feet, and approximately 95 per cent of its fast-food restaurant members are of a size less than 3,750 square feet. . . [T]he NRA figures do not seem to contradict the estimates of the CRS study of 1995.

In 1999, Dun & Bradstreet, Inc. ("D&B") was requested by ASCAP to update the 1995 CRS study based on 1998 data and the criteria in the 1998 Amendment.[124] The European Communities explains that the methodology used by the D&B in

1998/1999 was identical to the methodology used in the analysis which the D&B prepared in 1995 for the CRS during the legislative process that eventually led to the adoption of the Fairness in Music Licensing Act.

[124] . . . According to the European Communities, the 1998/1999 D&B's "Dun's Market Identifying Market Profile" is a database of more than 6.5 million US businesses, based on square footage. The European Communities explains that the figures of the D&B studies comprise bars, restaurants, tearooms, snackbars, etc. and retail stores. However, other sectors, e.g. hotels, financial service outlets, estate property brokers, and other types of service providers, in which a number of establishments are likely to be exempted as well, were not taken into account.

[125]According to the information submitted by the European Communities, the number of establishments contained in the D&B database in 1998 were as follows:

(a) 7,819 drinking establishments of a square footage below 3,750 square feet which amounts to 73 per cent of all US drinking establishments filed in the D&B database;

(b) 51,385 eating establishments of a square footage below 3,750 square feet which amounts to 70 per cent of all US eating establishments filed in the D&B database;

(c) 65,589 retail establishments of a square footage below 2,000 square feet or 45 per cent of all US retail establishments filed in the D&B database.

In addition, D&B estimated the total figures as follows:

> The D&B study of 1999[125] concludes that approximately 73 per cent of all drinking, 70 per cent of all eating, and 45 per cent of all retail establishments in the United States are entitled under subparagraph (B), without any limitation regarding equipment, to play music from radio and television on their business premises without the consent of the right holders.[126] …

Referring to these studies, the European Communities points out that these 70 per cent of eating and drinking establishments and 45 per cent of retail establishments are all potential users of the business exemption, because they can at any time, without permission of the right holders, begin to play amplified music broadcasts.

The United States contends that even if 70 per cent of all eating and drinking establishments and 45 per cent of all retail establishments are implicated by the size limits under subparagraph (B) after the 1998 Amendment, many of these establishments would have to be subtracted for various reasons. These include (i) establishments that do not play music at all; (ii) those that would turn off the music if they became liable to pay fees; (iii) those that play music from sources other than the radio or television, such as tapes, CDs, jukeboxes or live performances; (iv) establishments that were not licensed prior to the enactment of the business exemption in 1998; (v) establishments that would take advantage of group licensing arrangements such as the one between the NLBA [National Licensed Beverage Association] and the CMOs.

We agree with the European Communities that it is the scope in respect of potential users that is relevant for determining whether the coverage of the exemption is sufficiently limited to

qualify as a "certain *special* case". While it is true, as the United States argues, that some establishments might turn off the radio or television if they had to pay fees, other establishments which have not previously played music might do the opposite, because under the business exemption the use of music is free. Some establishments that have used recorded music may decide to switch to broadcast music in order to avoid paying licensing fees. It is clear that, in examining the exemption, we have to also consider its impact on the use of other substitutable sources of music. Consequently, we do not consider the US calculations of establishments to be deducted from the CRS or D&B estimates as relevant for ascertaining the potential scope of the business exemption in relation to the first condition of Article 13.

(a) 49,061 drinking establishments of a square footage below 3,750 square feet which amounts to 85 per cent of all US drinking establishments filed in the D&B database; (b) 192,692 eating establishments of a square footage below 3,750 square feet which amounts to 68 per cent of all US eating establishments filed in the D&B database; (c) 281,406 retail establishments of a square footage below 2,000 square feet or 42 per cent of all US retail establishments filed in the D&B database.

[126]The European Communities calculates that the number of eating, drinking and retail establishments that fall below the size limits of subparagraph (B), compared to the number of establishments that fall below the size of the restaurant that was operated by Mr. Aiken, has increased by 437 per cent, 540 per cent, and 250 per cent, respectively. While we do not wish to accept or reject the particular percentage figures of these estimates, we note that there is a magnitude of difference in the coverage between the original homestyle exemption and the new business exemption.

. . . .

The United States does not appear to make a distinction between, on the one hand, the eating and drinking or retail establishments whose size is within the applicable limits of subparagraph (B), and, on the other hand, larger establishments that may still use music for free if they comply with the applicable equipment limitations (e.g., concerning loudspeakers per room or screen size). We have not been provided with information concerning the absolute numbers or the proportion of these larger establishments qualifying under the business exemption. Suffice it to say that the percentage of all US eating, drinking and retail establishments that may fall within the coverage of subparagraph (B) could be even higher than the above figures or estimates suggest.

The United States further notes that the prohibitions against charging admission fees and retransmission in indent (iii) and (iv) of subparagraph (B) limit the field of application of the business exemption. The European Communities contends that these prohibitions have no potential whatsoever to limit the impact of the exemption. We have not been presented with information on whether these prohibitions significantly reduce the number of establishments that could otherwise qualify for the exemption. . . .

We note that, according to its preparatory works, Article 11*bis*(1)(iii) of the Berne Convention (1971) was intended to provide right holders with a right to authorize the use of their works in the types of establishments covered by the exemption contained in Section 110(5)(B). Specifically, the preparatory works for the 1948 Brussels Conference indicate that the establishments that were intended to be covered were places "above all, where people meet: in the cinema, in restaurants, in tea rooms, railway carriages . . **."** The preparatory works also refer to places such as factories, shops and offices.[133] We fail to see how a law that exempts a **major part** of the users that were specifically intended to be covered by the provisions of Article 11*bis*(1)(iii) could be considered as a *special* case in the sense of the first condition of Article 13 of the TRIPS Agreement.

We are aware that eating, drinking and retail establishments are not the only potential users of music covered by the exclusive rights conferred under Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971). The United States has mentioned, *inter alia*, conventions, fairs and sporting events as other potential users of performances of works in the meaning of the above Articles. However, we believe that these examples of other potential users do not detract from the fact that eating, drinking and retail establishments are among the major groups of potential users of the works in the ways that are covered by the above-mentioned Articles.

The factual information presented to us indicates that a substantial majority of eating and drinking establishments and close to half of retail establishments are covered by the exemption contained in subparagraph (B) of Section 110(5) of the US Copyright Act. Therefore, we conclude that the exemption does not qualify as a "certain special case" in the meaning of the first condition of Article 13.

[133]Documents de la Conférence Réunie à Bruxelles du 5 au 26 juin 1948, published by BIRPI in 1951, p. 266. . . .

The European Communities warns that the potential coverage of both exemptions contained in Section 110(5) could become even larger because subparagraphs (A) and (B) could arguably exempt the transmission of musical works over the Internet. Given that we have found that the business exemption does not meet the first condition of Article 13 regardless of whether it potentially implicates transmission of works over the Internet, we see no need to address this question in the context of subparagraph (B). However, we will take up this question when

we examine the homestyle exemption of subparagraph (A) in relation to the first condition of Article 13.

(iii) The homestyle exemption of subparagraph (A)

We examine now whether the homestyle exemption in subparagraph (A), in the form in which it is currently in force in the United States, is a "certain special case" in the meaning of the first condition of Article 13 of the TRIPS Agreement.

The United States submits that the exemption of subparagraph (A) is confined to "certain special cases", because its scope is limited to the use involving a "homestyle" receiving apparatus. In the US view, in the amended version of 1998 as well, this is a well-defined fact-specific standard. The essentially identical description of the homestyle exemption in the original Section 110(5) of 1976 was sufficiently clear and narrow for US courts to reasonably and consistently apply the exception—including square footage limitation since the *Aiken* case—in a number of individual decisions. For the United States, the fact that judges have weighed the various factors slightly differently in making their individual decisions is simply a typical feature of a common-law system.

The European Communities contends that the criteria of the homestyle exemption in subparagraph (A) are ambiguously worded because the expression "a single receiving apparatus of a kind commonly used in private homes" is in itself imprecise and a "moving target" due to technological development. Also the variety of approaches and factors used by US courts in applying the original version of the homestyle exemption are proof for the European Communities that the wording of subparagraph (A) of Section 110(5) is vague and open-ended.

Beneficiaries of the homestyle exemption

The wording of the amended version of Section 110(5)(A) is essentially identical to the wording of Section 110(5) in its previous version of 1976, apart from the introductory phrase "except as provided in subparagraph (B)". Therefore, we consider that the practice as reflected in the judgements rendered by US courts after 1976 concerning the original homestyle exemption may be regarded as factually indicative of the reach of the homestyle exemption even after the 1998 Amendment.

. . . In the evolution of case law, subsequent to the inclusion of the original homestyle exemption in the Copyright Act of 1976 in reaction to the *Aiken*

judgement, US courts have considered a number of factors to determine whether a shop or restaurant could benefit from the exemption.[135] These factors have included: (i) physical size of an establishment in terms of square footage (in comparison to the size of the *Aiken* restaurant); (ii) extent to which the receiving apparatus was to be considered as one commonly used in private homes; (iii) distance between the receiver and the speakers; (iv) number of speakers; (v) whether the speakers were free-standing or built into the ceiling; (vi) whether, depending on its revenue, the establishment was of a type that would normally subscribe to a background music service; (vii) noise level of the areas within the establishment where the transmissions were made audible or visible; and (viii) configuration of the installation. In some federal circuits, US courts have focused primarily on the plain language of the homestyle exemption that refers to "a single receiving apparatus of a kind commonly used in private homes."

The European Communities emphasizes that in some US court cases large chain store corporations were found to be exempted provided that each branch shop met the criteria of the exemption, e.g., in respect of the size of the establishment and the equipment used by it, regardless of the ownership and the economic size or corporate structure of the chain store corporation.[136] It is our understanding that the European Communities does not argue that the ability of a corporate chain to pay or the number of individual stores in joint ownership or under the control of the chain store corporation should be a decisive factor for refusing to grant the exemption to a particular branch store. However, the European Communities cautions that these US court decisions are illustrative of a judicial trend towards broadening the homestyle exemption of 1976 in recent years.

The United States responds that, in applying Section 110(5) of the Copyright Act of 1976, only three US court judgements have found that a defendant was entitled to take advantage of the exemption. It also contends that only two US court judgements (*Claire's Boutiques* and *Edison Bros.*[137]) dealt with the applicability of the exemption to particular branch shops of chain stores.

We note that the parties have submitted quantitative information on the coverage of subparagraph (A) with respect to eating, drinking and other establishments. [Here the Panel cites to the findings of the 1995 CRS study.]

We believe that from a quantitative perspective the reach of subparagraph (A) in respect of potential users is limited to a comparably small percentage of all eating, drinking and retail establishments in the United States.

[135]According to the European Communities, US courts have never favourably applied the homestyle exemption to an eating or drinking establishment of more than 1,500 square feet of total space nor to establishments using more than four loudspeakers.

[136]Broadcast Music, Inc. v. Claire's Boutiques Inc., US Court of Appeals for the Seventh Circuit, No. 91-1232, 11 December 1991.

[137]Broadcast Music, Inc. v. Edison Bros. Stores Inc., US Court of Appeals for the Eight Circuit, No. 91-2115, 13 January 1992.

We are mindful of the above-mentioned EC argument alleging a judicial trend towards broadening the homestyle exemption of 1976 in recent years. We cannot exclude the possibility that in the future US courts could establish precedents that would lead to the expansion of the scope of the currently applicable homestyle exemption as regards covered establishments. But we also note that since 1976 US courts have in the vast majority of cases applied the homestyle exemption in a sufficiently consistent and clearly delineated manner. Given the sufficiently consistent and narrow application practice of the homestyle exemption of 1976, we see no need to hypothesise whether at some point in the future US case law might lead to a *de facto* expansion of the homestyle exemption of 1998.

Homestyle Exception

We note that what is referred to as homestyle equipment (i.e., "a single receiving apparatus of a kind commonly used in private homes") might vary between different countries, is subject to changing consumer preferences in a given country, and may evolve as a result of technological development. We thus agree in principle with the European Communities that the homestyle equipment that was used in US households in 1976 (when the original homestyle exemption was enacted) is not necessarily identical to the equipment used in 1998 (when US copyright legislation was amended) or at a future point in time. However, we recall that the term "*certain* special cases" connotes "known and particularised, but not explicitly identified." In our view, the term "homestyle equipment" expresses the degree of clarity in definition required under Article 13's first condition. In our view, a Member is not required to identify homestyle equipment in terms of exceedingly detailed technical specifications in order to meet the standard of clarity set by the first condition. While we recognize that homestyle equipment may become

technologically more sophisticated over time, we see no need to enter into speculations about potential future developments in the homestyle equipment market. At any rate, we recall that our factual determinations are invariably limited to what currently is being perceived as homestyle equipment in the US market.

Musical works covered by subparagraph (A)

We have noted the common view of the parties that the addition of the introductory phrase "except as provided in subparagraph (B)" to the homestyle exemption in the 1998 Amendment should be understood by way of an ***a contrario*** argument as limiting the coverage of the exemption to works other than "nondramatic" musical works. . . .

While taking this position on the interpretation of subparagraph (A), the European Communities has, however, cautioned that US courts might read a broader coverage into subparagraph (A) at a future point in time. In view of the common understanding of the parties in the current dispute, and given the EC responses to our questions about the scope of its claims, we see no need to speculate whether in the future subparagraph (A) could be interpreted by US courts to cover musical works other than those considered as "dramatic".

In practice, this means that most if not virtually all music played on the radio or television is covered by subparagraph (B). Subparagraph (A) covers, in accordance with the common understanding of the parties, dramatic renditions of operas, operettas, musicals and other similar dramatic works. We consider that limiting the application of subparagraph (A) to the public communication of transmissions embodying such works, gives its provisions a quite narrow scope of application in practice.

Internet transmissions

As we noted . . . above, the types of transmissions covered by both subparagraphs of Section 110(5) include original broadcasts over the air or by satellite, rebroadcasts by terrestrial means or by satellite, cable retransmissions of original broadcasts, and original cable transmissions or other transmissions by wire. The provisions do not distinguish between analog and digital transmissions.

The European Communities presumes that, given its open-ended wording, subparagraph (A) may apply to the public communication of musical works transmitted using new

technologies such as computer networks (e.g., the Internet), the importance of which increases from day to day.[142]

The United States emphasizes that, in general, neither subparagraph of Section 110(5) exempts communication over a digital network. In its view, the transmission of works over a computer network involves numerous incidents of reproduction and could also implicate distribution rights. Therefore, Internet users would have to seek a licence for the reproduction and possibly for the distribution of works. The United States further developed its argumentation by adding that it was unclear whether the performance aspect of an Internet transmission would be covered by either subparagraph of Section 110(5). It stated, however, that if an FCC-licensed broadcaster itself streams its signals over the Internet, the performance aspect of the broadcast might fall within the exemption.

Whether or not an establishment would need an authorization for the reproduction or distribution of musical works, in the situations envisaged under Section 110(5), does not in our view detract from the fact that an authorization is required for the exploitation of protected works in respect of the exclusive rights protected under Articles 11(1)(ii) or 11*bis*(1)(iii) of the Berne Convention (1971).

In the light of the parties' arguments, we cannot exclude the possibility that the homestyle exemption might apply to the communication to the public of works transmitted over the Internet. But we also note that, based on the information provided to us by the parties, there seems to be no experience to date of the application of the homestyle exemption in its original or amended form to the transmission of "dramatic" musical works over the Internet. In these circumstances, we cannot see how potential repercussions in the future

[142]For example, an FCC-licensed radio (or TV) broadcaster parallels its over-the-air transmissions on the Internet (as an audio back-up to his web-site). These programmes are received by a PC connected with a number of loudspeakers in a bar or other establishment meeting all the conditions set out in Section 110(5) of the US Copyright Act.

could affect our conclusions concerning subparagraph (A) at this point in time in relation to the first condition of Article 13 of the TRIPS Agreement. But we also do not wish to exclude the possibility that in the future new technologies might create new ways of distributing dramatic renditions of "dramatic" musical works that might have implications for the assessment of subparagraph (A) as a "certain special case" in the meaning of the first condition of Article 13.

Other considerations

The European Communities contends that neither subparagraph of Section 110(5) discloses a "valid" public policy or other exceptional circumstance that makes it inappropriate or impossible to enforce the exclusive rights conferred.

[The panel cited the legislative history of the 1976 Act for the rationale of the original homestyle exemption.]

The United States further explains that the policy purpose justifying subparagraph (A) is the protection of small "mom and pop" businesses which "play an important role in the American social fabric" because they "offer economic opportunities for women, minorities, immigrants and welfare recipients for entering the economic and social mainstream."

We recall our considerations above that we reject the idea that the first condition of Article 13 requires us to pass a value judgement on the legitimacy of an exception or limitation. However, we also observed that stated public policy purposes could be of subsidiary relevance for drawing inferences about the scope of an exemption and the clarity of its definition. In our view, the statements from the legislative history indicate an intention of establishing an exception with a narrow scope.

Finally, we recall our conclusion that the context of Articles 11 and 11*bis* of the Berne Convention (1971) as incorporated into the TRIPS Agreement allows for the possibility of providing minor exceptions to the exclusive rights in question; i.e., the intention was to allow exceptions as long as they are *de minimis* in scope.

Taking into account the specific limits imposed in subparagraph (A) and its legislative history, as well as in its considerably narrow application in the subsequent court practice on the beneficiaries of the exemption, permissible equipment and categories of works, we are of the view that the homestyle exemption in subparagraph (A) of Section 110(5) as amended in 1998 is well-defined and limited in its scope and reach. We, therefore, conclude that the exemption is confined to certain special cases within the meaning of the first condition of Article 13 of the TRIPS Agreement.

[The panel concluded that it should examine the other two conditions as well, for purposes of judicial economy.]

(c) *"Not conflict with a normal exploitation of the work"*

(i) General interpretative analysis

. . . .

In interpreting the second condition of Article 13, we first need to define what "exploitation" of a "work" means. More importantly, we have to determine what constitutes a "normal"

exploitation, with which a derogation is not supposed to "conflict".

The ordinary meaning of the term "exploit" connotes "making use of" or "utilising for one's own ends."[150] We believe that "exploitation" of musical works thus refers to the **activity** by which copyright owners employ the exclusive rights conferred on them to extract economic value from their rights to those works.

We note that the ordinary meaning of the term "normal" can be defined as "constituting or conforming to a type or standard; regular, usual, typical, ordinary, conventional. . . ."[151] In our opinion, these definitions appear to reflect two connotations: the first one appears to be of an empirical nature, i.e., what is regular, usual, typical or ordinary. The other one reflects a somewhat more normative, if not dynamic, approach, i.e., conforming to a type or standard. We do not feel compelled to pass a judgment on which one of these connotations could be more relevant. Based on Article 31 of the Vienna Convention, we will attempt to develop a harmonious interpretation which gives meaning and effect to both connotations of "normal".

If "normal" exploitation were equated with full use of all exclusive rights conferred by copyrights, the exception clause of Article 13 would be left devoid of meaning. Therefore, "normal" exploitation clearly means something less than full use of an exclusive right.[152]

In the US view, it is necessary to look to the ways in which an author might reasonably be expected to exploit his work in the normal course of events, when one determines what constitutes a normal exploitation. In this respect, it is relevant that Article 13 does not refer to particular specific rights but to "the work" as a whole. This implies that, in examining an exception under the second condition, consideration should be given to the scope of the exception *vis-à-vis* the panoply of all the rights holders' exclusive rights, as well as *vis-à-vis* the exclusive right to which it applies. In its view, the most important forms of exploitation of musical works, namely, "primary" performance and broadcasting, are not affected by either subparagraph of Section 110(5). The business and homestyle exemptions only affect what the United States considers "secondary" uses of broadcasts, and that too, subject to size and equipment limitations. In the US view, right holders normally obtain the main part of their remuneration from "primary" uses and only a minor part from "secondary" uses.

150 Oxford English Dictionary, p. 888.
151 Oxford English Dictionary, p. 1940.

152 In the context of exceptions to reproduction rights under Article 9(2) of the Berne Convention (1971)—whose second condition is worded largely identically to the second condition of Article 13 of the TRIPS Agreement—the Main Committee I of the Stockholm Diplomatic Conference (1967) stated:

> "If it is considered that reproduction conflicts with the normal exploitation of the work, reproduction is not permitted at all. If it is considered that reproduction does not conflict with the normal exploitation of the work, the next step would be to consider whether it does not unreasonably prejudice the legitimate interests of the author. Only if such is not the case would it be possible in certain special cases to introduce a compulsory licence, or to provide for use without payment. A practical example may be photocopying for various purposes. If it consists of producing a very large number of copies, it may not be permitted, as it conflicts with a normal exploitation of the work. If it implies a rather large number of copies for use in industrial undertakings, it may not unreasonably prejudice the legitimate interests of the author, provided that, according to national legislation, an equitable remuneration is paid. If a small number of copies is made, photocopying may be permitted without payment, particularly for individual or scientific use."

See Records of the Intellectual Property Conference of Stockholm, 11 June–14 July 1967, Report on the Work of the Main Committee I (Substantive Provisions of the Berne Convention: Articles 1-20.)

The European Communities rejects the idea that there could be a hierarchical order between "important" and "unimportant" rights under the TRIPS Agreement. For the European Communities, there are no "secondary" rights and the exclusive rights provided for in Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971) are all equally important separate rights.

The United States itself clarifies that it does not imply that a legal hierarchy exists between different exclusive rights conferred under Articles 11, 11*bis* or any other provision of the Berne Convention (1971) and that a country cannot completely eliminate an exclusive right even if that right be economically unimportant. But it takes the view that when a possible conflict with a normal exploitation of the work is analysed, it is relevant whether the exception applies to one or several exclusive rights. Similarly, the degree to which the exception affects a particular exclusive right is also relevant for the analysis of the second condition of Article 13.

It is true, as the United States points out, that Article 13 refers to a normal exploitation of "the work." However, the TRIPS Agreement and the Berne Convention provide exclusive rights in relation to the work. These exclusive rights are the legal means by which exploitation of the work, i.e., the commercial activity for extracting economic value from the rights to the work, can be carried out. The parties do not in principle question that the term "works" should be understood as referring to the "exclusive rights" in those works.[154] In our view, Article 13's second condition does not explicitly refer *pars pro toto* to exclusive

rights concerning a "work" given that the TRIPS Agreement (or the Berne Convention (1971) as incorporated into it) confers a considerable number of exclusive rights to all of which the exception clause of Article 13 may apply. Therefore, we believe that the "work" in Article 13's second condition means all the exclusive rights relating to it.

While we agree with the United States that the degree to which an exception affects a particular right is relevant for our analysis under the second condition, we emphasize that a possible conflict with a normal exploitation of a particular exclusive right cannot be counter-balanced or justified by the mere fact of the absence of a conflict with a normal exploitation of another exclusive right (or the absence of any exception altogether with respect to that right), even if the exploitation of the latter right would generate more income.

[154]These rights include, *inter alia*, the rights of public performance and broadcasting as well as the right of communication to the public in the meanings of Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971).

We agree with the European Communities that whether a limitation or an exception conflicts with a normal exploitation of a work should be judged for each exclusive right individually. We recall that this dispute primarily concerns the exclusive right under Article 11*bis*(1)(iii) of the Berne Convention (1971) as incorporated into the TRIPS Agreement, but also the exclusive right under Article 11(1)(ii). In our view, normal exploitation would presuppose the possibility for right holders to exercise separately all three exclusive rights guaranteed under the three subparagraphs of Article 11*bis*(1), as well as the rights conferred by other provisions, such as Article 11, of the Berne Convention (1971). If it were permissible to limit by a statutory exemption the exploitation of the right conferred by the third subparagraph of Article 11*bis*(1) simply because, in practice, the exploitation of the rights conferred by the first and second subparagraphs of Article 11*bis*(1) would generate the lion's share of royalty revenue, the "normal exploitation" of each of the three rights conferred separately under Article 11*bis*(1) would be undermined.[155]

. . . .

We also note that the amplification of broadcast music will occur in establishments such as bars, restaurants and retail stores for the commercial benefit of the owner of the establishment. Both parties agree on the commercial nature of playing music even when customers are not directly charged for it. It may be that the amount yielded from any royalty payable as a consequence of this exploitation of the work will not be very great if one looks

at the matter in the context of single establishments. **But it is the accumulation of establishments which counts.** It must be remembered that a copyright owner is entitled to exploit each of the rights for which a treaty, and the national legislation implementing that treaty, provides. If a copyright owner is entitled to a royalty for music broadcast over the radio, why should the copyright owner be deprived of remuneration which would otherwise be earned, when a significant number of radio broadcasts are amplified to customers of a variety of commercial establishments no doubt for the benefit of the businesses being conducted in those establishments. We also note that although, in a sense, the amplification which is involved is additional to and separate from the broadcast of a work, it is tied to the broadcast. The amplification cannot occur unless there is a broadcast. If an operator of an establishment plays recorded music, there is no legislative exception to the copyright owners' rights in that regard. But the amplification of a broadcast adds to the broadcast itself because it ensures that a wider audience will hear it. Clearly Article 11*bis*(iii) contemplates the use which is in question here by conferring rights on copyright owners in respect of the amplification of broadcasts.

[155]Moreover, we need to keep in mind that the exclusive rights conferred by different subparagraphs of Articles 11*bis* and 11 need not necessarily be in the possession of one and the same right holder. An author or performer may choose not to license the use of a particular exclusive right but to sell and transfer it to another natural or juridical person. If it were permissible to justify the interference into one exclusive right with the fact that another exclusive right generates more revenue, certain right holders might be deprived of their right to obtain royalties simply because the exclusive right held by another right holder is more profitable.

Our view that exclusive rights need to be analysed separately for the purposes of the second condition is also corroborated by the licensing practices between CMOs and broadcasting organizations in the United States and the European Communities. These practices do not appear to take into account the potential additional audience created by means of a further communication by loudspeaker of a broadcast of a work within the meaning of Article 11*bis*(1)(iii), i.e. no fees are collected from broadcasters for the additional audiences. . . .

That leaves us with the question of how to determine whether a particular use constitutes a normal exploitation of the exclusive rights provided under Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971). In academic literature, one approach that has been suggested would be to rely on "the ways in which an author might reasonably be expected to exploit his work in the normal course of events."[159]

The main thrust of the US argumentation is that, for judging "normal exploitation," Article 13's second condition implies an economic analysis of the degree of "market displacement" in terms of foregone collection of remuneration by right owners caused by the free use of works due to the exemption at issue. In

the US view, the essential question to ask is whether there are areas of the market in which the copyright owner would ordinarily expect to exploit the work, but which are not available for exploitation because of this exemption. Under this test, uses from which an owner would not ordinarily expect to receive compensation are not part of the normal exploitation.

In our view, this test seems to reflect the empirical or quantitative aspect of the connotation of "normal", the meaning of "regular, usual, typical or ordinary." We can, therefore, accept this US approach, but only for the empirical or quantitative side of the connotation. We have to give meaning and effect also to the second aspect of the connotation, the meaning of "conforming to a type or standard". We described this aspect of normalcy as reflecting a more normative approach to defining normal exploitation, that includes, *inter alia*, a dynamic element capable of taking into account technological and market developments. The question then arises how this normative aspect of "normal" exploitation could be given meaning in relation to the exploitation of musical works.

In this respect, we find persuasive guidance in the suggestion by a study group, composed of representatives of the Swedish Government and the United International Bureaux for the Protection of Intellectual Property ("BIRPI"), which was set up to prepare for the Revision Conference at Stockholm in 1967 ("Swedish/BIRPI Study Group"). In relation to the reproduction right, this Group suggested to allow countries:

> [to] limit the recognition and the exercising of that right, for specified purposes and *on the condition that these purposes should not enter into economic competition with these works* in the sense that *all forms of exploiting a work, which have, or are likely to acquire, considerable economic or practical importance, must be reserved to the authors.*[161]
>
> (emphasis added).

Thus it appears that one way of measuring the normative connotation of normal exploitation is to consider, in addition to those forms of exploitation that currently generate significant or tangible revenue, those forms of exploitation which, with a certain degree of likelihood and plausibility, could acquire considerable economic or practical importance.

[159] Ricketson, The Berne Convention, op. cit., p. 483.

[161] Document S/1: Berne Convention; Proposals for Revising the Substantive Copyright Provisions (Articles 1-20). Prepared by the Government of Sweden with the assistance of BIRPI, p. 42.

In contrast, exceptions or limitations would be presumed not to conflict with a normal exploitation of works if they are confined to a scope or degree that does not enter into economic competition with non-exempted uses. In this respect, the suggestions of the Swedish/BIRPI Study Group are useful:

> In this connection, the Study Group observed that, on the one hand, it was obvious that *all forms of exploiting a work which had, or were likely to acquire, considerable economic or practical importance must in principle be reserved to the authors*; exceptions that might restrict the possibilities open to the authors in these respects were unacceptable. On the other hand, it should not be forgotten that *domestic laws already contained a series of exceptions in favour of various public and cultural interests* and that it would be vain to suppose that countries would be ready at this stage to abolish these exceptions to any appreciable extent. (emphasis added).

We recall that the European Communities proposes to measure the impact of exceptions by using a benchmark according to which, at least, all those forms of use of works that create an economic benefit for the user should be considered as normal exploitation of works. We can accept that the assessment of normal exploitation of works, from an empirical or quantitative perspective, requires an economic analysis of the commercial use of the exclusive rights conferred by the copyrights in those works. However, in our view, not every use of a work, which in principle is covered by the scope of exclusive rights and involves commercial gain, necessarily conflicts with a normal exploitation of that work. If this were the case, hardly any exception or limitation could pass the test of the second condition and Article 13 might be left devoid of meaning, because normal exploitation would be equated with full use of exclusive rights.

We believe that an exception or limitation to an exclusive right in domestic legislation rises to the level of a conflict with a normal exploitation of the work (i.e., the copyright or rather the whole bundle of exclusive rights conferred by the ownership of the copyright), if uses, that in principle are covered by that right but exempted under the exception or limitation, enter into economic competition with the ways that right holders normally extract economic value from that right to the work (i.e., the copyright) and thereby deprive them of significant or tangible commercial gains.

In developing a benchmark for defining the normative connotation of normal exploitation, we recall the European Communities' emphasis on the potential impact of an exception rather than on its actual effect on the market at a given point in time, given that, in its view, it is the potential effect that determines the market conditions.

. . . .

Therefore, in respect of the exclusive rights related to musical works, we consider that normal exploitation of such works is not only affected by those who actually use them without an authorization by the right holders due to an exception or limitation, **but also by those who may be induced by** it to do so at any time without having to obtain a licence from the right holders or the CMOs representing them. Thus we need to take into account those whose use of musical works is free as a result of the exemptions, and also those who may choose to start using broadcast music once its use becomes free of charge.

We base our appraisal of the actual and potential effects on the commercial and technological conditions that prevail in the market currently or in the near future. What is a normal exploitation in the market-place may evolve as a result of technological developments or changing consumer preferences. Thus, while we do not wish to speculate on future developments, we need to consider the actual and potential effects of the exemption in question in the current market and technological environment.

We do acknowledge that the extent of exercise or non-exercise of exclusive rights by right holders at a given point in time is of great relevance for assessing what is the normal exploitation with respect to a particular exclusive right in a particular market. However, in certain circumstances, current licensing practices may not provide a sufficient guideline for assessing the potential impact of an exception or limitation on normal exploitation. For example, where a particular use of works is not covered by the exclusive rights conferred in the law of a jurisdiction, the fact that the right holders do not license such use in that jurisdiction cannot be considered indicative of what constitutes normal exploitation. The same would be true in a situation where, due to lack of effective or affordable means of enforcement, right holders may not find it worthwhile or practical to exercise their rights.

Both parties are of the view that the "normalcy" of a form of exploitation should be analysed primarily by reference to the

market of the WTO Member whose measure is in dispute, i.e., the US market in this dispute. The European Communities is also of the view that comparative references to other countries with a similar level of socio-economic development could be relevant to corroborate or contradict data from the country primarily concerned. We note that while the WTO Members are free to choose the method of implementation, the minimum standards of protection are the same for all of them. In the present case it is enough for our purposes to take account of the specific conditions applying in the US market in assessing whether the measure in question conflicts with a normal exploitation in that market, or whether the measure meets the other conditions of Article 13.

(ii)The business exemption of subparagraph (B)

The United States contends that the business exemption does not conflict with a normal exploitation of works for a number of reasons. First, in view of the great number of small eating, drinking and retail establishments, individual right holders or their CMOs face considerable administrative difficulties in licensing all these establishments. Given that the market to which the business exemption applies was never significantly exploited by the CMOs, the US Congress merely codified the *status quo* of the CMOs' licensing practices. Second, a significant portion of the establishments exempted by the new business exemption had already been exempted under the old homestyle exemption. Thus owners of copyrights in nondramatic musical works had no expectation of receiving fees from the small eating, drinking or retail establishments covered by the latter exemption. Third, even if subparagraph (B) had not been enacted, many of the establishments eligible for that exemption would have been able to avail themselves of an almost identical exemption under the group licensing agreement between the NLBA and ASCAP, the BMI and SESAC ("US CMOs"). For these reasons, the United States assumes that, even before the 1998 Amendment, right holders would not have normally expected to obtain fees from these establishments. The United States believes that the number of establishments that would not have been entitled to take advantage of the original homestyle exemption of 1976 or the NLBA agreement and thus were newly exempted under subparagraph (B), is small. Viewed against the panoply of exploitative uses available to copyright owners under US copyright law, in the US view, the residual limitation on some secondary uses of broadcast works does not rise to the level of a conflict with normal exploitation.

The European Communities responds that administrative difficulties in licensing a great number of small establishments do not excuse the very absence of the right, because there can be enforcement of only such rights as are recognized by law. It also points out that the use of recorded music is not covered by the exemptions. Arguing that this differentiation is difficult to justify, it contends that, to the extent the licensing of a great number of establishments meets insurmountable difficulties, then such difficulties should occur independently of the medium used. It also notes that the EC CMOs are successfully licensing a great number of small businesses without encountering insurmountable obstacles, whereas the US CMOs due to the lack of legal protection have not developed the necessary administrative structure to licence small establishments.

In response to a question from the Panel, the United States clarifies that it does not argue that administrative difficulties in licensing small establishments are more severe with respect to broadcast music as opposed to CDs or live music. Part of the rationale for this distinction is rather an historical one.

In relation to its statement that the market to which the business exemption applies was never significantly exploited by the CMOs, the United States submitted information concerning the number and percentage of establishments that were licensed in the past by the CMOs. The United States explains that, in considering the original homestyle exemption of Section 110(5), the US Congress found that, prior to 1976, the majority of beneficiaries of the then contemplated exemption were not licensed. As regards the situation between the entry into force of the 1976 Copyright Act and the 1998 Amendment, the United States refers to the information provided by the NRA. Based on the US Census Bureau data for 1996 and a number of its own studies, the NRA estimates that 16 per cent of table service restaurants and 5 per cent of fast food restaurants were licensed by the CMOs at that time in the United States.

According to the NRA estimates based on the Census Bureau data, there was approximately the same number of table service and fast food restaurants in the United States. Averaging these percentage figures, the United States concludes that approximately 10.5 per cent of restaurants were licensed by the CMOs.

In this context, the United States refers to the testimony of the President of ASCAP before the US Congress in 1997. Based on the total number of ASCAP restaurants licensees and the total number of restaurants estimated by the NRA on the basis of the

Census Bureau data, the United States estimates that ASCAP did not license more than 19 per cent of restaurants at that time. This, in its view, also indicates a relatively low level of licensing of such establishments.

We recall that, in its study of November 1995, the CRS estimated that the size of 16 per cent of eating establishments, 13.5 per cent of drinking establishments and 18 per cent of retail establishments did not exceed at that time the size of the *Aiken* restaurant, i.e. 1,055 square feet. These establishments could benefit from the exemption under the original Section 110(5), subject to equipment limitations. The United States gives two estimates of the number of licensed restaurants at that time: on the one hand, 10.5 per cent of restaurants were licensed by the CMOs, and, on the other hand, 19 per cent of restaurants were licensed by ASCAP. The United States also estimates that 74 per cent of all restaurants play some kind of music.

Even when we deduct the share of the restaurants that were potentially exempted under the original homestyle exemption, we can agree with the United States that these figures indicate a relatively low level of licensing of restaurants likely to play music. However, as we noted above, whether or not the CMOs fully exercise their right to authorize the use of particular exclusive rights, or choose to collect remuneration for particular uses, or from particular users can, in our view, not necessarily be fully indicative of "normal exploitation" of exclusive rights. In considering whether the 1998 Amendment conflicts with normal exploitation, the fact that it does not generally change the licensing practices in relation to those establishments that were already exempted under the old homestyle exemption is not relevant; it is evident that due to the pre-existing homestyle exemption such establishments could not be licensed. . . .

The restaurants that were licensed by the CMOs before the 1998 Amendment were presumably mostly restaurants which were above the *Aiken* size limits (or did not meet the equipment limits for smaller restaurants). The two US estimates of the share of licensed restaurants (10.5 and 19 per cent) read together with the US estimate of the share of restaurants that play some kind of music (74 per cent) imply that many restaurants, that were above the *Aiken* size limits and that were likely to play music, appear not to have been licensed. This tends to indicate that amongst similar users some paid licence fees while others did not. We have not been provided with any evidence that it would be considered normal to expect remuneration from some but not other similarly situated users.

We do not find the argument compelling, according to which an exception that codifies an existing practice by the CMOs of not licensing certain users should
be presumed not to conflict with normal exploitation, as it would not affect right holders' current expectations to be remunerated. In our understanding, this would equate "normal exploitation" with "normal remuneration" practices existing at a certain point in time in a given market or jurisdiction. If such exceptions were permissible *per se*, any current state and degree of exercise of an exclusive right by right holders could effectively be "frozen". In our view, such argumentation could be abused as a justification of any exception or limitation since right holders could never reasonably expect remuneration for uses which are not covered by exclusive rights provided in national legislation. Logically, no conflict with normal exploitation could be construed. The same would apply where a low level of exercise of an exclusive right would be due to lack of effective or affordable means of enforcement of that right. In other words, the licensing practices of the CMOs in a given market at a given time do not define the minimum standards of protection under the TRIPS Agreement that have to be provided under national legislation.

[The panel rejected as irrelevant to the interpretation of Article 13 the United States' reliance on the terms of (1) a prior 1995 legislative proposal by the U.S. CMOs as a substitute for a then-pending bill to amend section 110(5), and (2) a 1995 private group licensing agreement between the U.S. CMOs and the NLBA.] We recall that a substantial majority of eating and drinking establishments and close to half of retail establishments are eligible to benefit from the business exemption. This constitutes a major potential source of royalties for the exercise of the exclusive rights contained in Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971), as demonstrated by the figures of the D&B studies referred to under our analysis of the first condition of Article 13.

We recall that subparagraph (B) of Section 110(5) exempts communication to the public of radio and television broadcasts, while the playing of musical works from CDs and tapes (or live music) is not covered by it. Given that we have not been provided with reasons other than historical ones for this distinction, we see no logical reason to differentiate between broadcast and recorded music when assessing what is a normal use of musical works.

It is true, as the United States notes, that many of these establishments might not play music at all, or play recorded or live music. According to NLBA surveys, among its member establishments 26 per cent use CDs or tapes, 18 per cent rely on background music services, 37 per cent have live music performances, while 28 per cent play radio music. The United States estimates that overall approximately 74 per cent of US restaurants play music from various sources. The United States provided estimates also by the NRA concerning its membership on the percentage of restaurants that play the radio or use the television . . . . From this data, the United States assumes that no more than 44 per cent of licensing fees can be attributed to radio music.

We note that the parties agree that the administrative challenges for the CMOs related to the licensing of a great number of small eating, drinking and retail establishments do not differ depending on the medium used for playing music. We believe that the differentiation between different types of media may induce operators of establishments covered by subparagraph (B) to switch from recorded or live music, which is subject to the payment of a fee, to music played on the radio or television, which is free of charge. This may also create an incentive to reduce the licensing fees for recorded music so that users would not switch to broadcast music.

Right holders of musical works would expect to be in a position to authorize the use of broadcasts of radio and television music by many of the establishments covered by the exemption and, as appropriate, receive compensation for the use of their works. Consequently, we cannot but conclude that an exemption of such scope as subparagraph (B) conflicts with the "normal exploitation" of the work in relation to the exclusive rights conferred by Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971).

In the light of these considerations, we conclude that the business exemption embodied in subparagraph (B) conflicts with a normal exploitation of the work within the meaning of the second condition of Article 13.

(iii) The homestyle exemption of subparagraph (A)

[The panel did not state conclusions as regards the original pre-1998 homestyle exemption, but noted that according to the 1995 CRS study, the number of establishments that could benefit from the exemption was limited to a comparatively small percentage of all eating, drinking and retail establishments in the United States.] . . . .

We recall that it is the common understanding of the parties that the operation of subparagraph (A) is limited [to dramatic musical works]. . . . Consequently, performances of, e.g., individual songs from a dramatic musical work outside a dramatic context would constitute a rendition of a nondramatic work and fall within the purview of subparagraph (B).

It is our understanding that the parties agree that the right holders do not normally license or attempt to license the public communication of transmissions embodying dramatic renditions of "dramatic" musical works in the sense of Article 11*bis*(1)(iii) and/or 11(1)(ii). We have not been provided with information about any existing licensing practices concerning the communication to the public of broadcasts of performances of dramatic works (e.g., operas, operettas, musicals) by eating, drinking or retail establishments in the United States or any other country. In this respect, we fail to see how the homestyle exemption, as limited to works other than nondramatic musical works in its revised form, could acquire economic or practical importance of any considerable dimension for the right holders of musical works.

Therefore, we conclude that the homestyle exemption contained in subparagraph (A) of Section 110(5) does not conflict with a normal exploitation of works within the meaning of the second condition of Article 13.

(d) *"Not unreasonably prejudice the legitimate interests of the right holder"*

(i) General interpretative analysis

. . . .

We note that the analysis of the third condition of Article 13 of the TRIPS Agreement implies several steps. First, one has to define what are the "interests" of right holders at stake and which attributes make them "legitimate". Then, it is necessary to develop an interpretation of the term "prejudice" and what amount of it reaches a level that should be considered "unreasonable".

The ordinary meaning of the term "interests" may encompass a legal right or title to a property or to use or benefit of a property (including intellectual property). It may also refer to a concern about a potential detriment or advantage, and more generally to something that is of some importance to a natural or legal person. Accordingly, the notion of "interests" is not necessarily limited to actual or potential economic advantage or detriment.

The term "legitimate" has the meanings of

(a) conformable to, sanctioned or authorized by, law or principle; lawful; justifiable; proper;

(b) normal, regular, conformable to a recognized standard type.

Thus, the term relates to lawfulness from a legal positivist perspective, but it has also the connotation of legitimacy from a more normative perspective, in the context of calling for the protection of interests that are justifiable in the light of the objectives that underlie the protection of exclusive rights.

We note that the ordinary meaning of "prejudice" connotes damage, harm or injury. "Not unreasonable" connotes a slightly stricter threshold than "reasonable". The latter term means "proportionate", "within the limits of reason, not greatly less or more than might be thought likely or appropriate", or "of a fair, average or considerable amount or size."[201]

Given that the parties do not question the "legitimacy" of the interest of right holders to exercise their rights for economic gain, the crucial question becomes which degree or level of "prejudice" may be considered as "unreasonable". Before dealing with the question of what amount or which kind of prejudice reaches a level beyond reasonable, we need to find a way to measure or quantify legitimate interests.

In our view, one—albeit incomplete and thus conservative—way of looking at legitimate interests is the economic value of the exclusive rights conferred by copyright on their holders. It is possible to estimate in economic terms the value of exercising, e.g., by licensing, such rights. That is not to say that legitimate interests are necessarily limited to this economic value.[202]

In examining the second condition of Article 13, we have addressed the US argument that the prejudice to right holders caused by the exemptions at hand are minimal because they already receive royalties from broadcasting stations. We concluded that each exclusive right conferred by copyright, *inter alia*, under each subparagraph of Articles 11*bis* and 11 of the Berne Convention (1971), has to be considered separately for the purpose of examining whether a possible conflict with a "normal exploitation" exists.[203]

The crucial question is which degree or level of "prejudice" may be considered as "unreasonable", given that, under the third condition, a certain amount of "prejudice" has to be presumed justified as "not unreasonable."[205] In our view, prejudice to the legitimate interests of right holders reaches an unreasonable level if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright owner.

. . . .

[201] Oxford English Dictionary, p. 2496.

[202] Panel Report on *Canada—Patent Protection of Pharmaceutical Products*, adopted on 7 April 2000, WT/DS114/R, ¶¶ 7.60ff. We note, however, the difference in wording between Articles 13 and 30 of the TRIPS Agreement. The latter also refers to "taking account of the legitimate interests of third parties."

[203]We also recall from our examination of Article 13's second condition that we were not presented with evidence of licensing arrangements between CMOs and broadcasting organizations, concerning mainly the exclusive rights of Article 11*bis*(1)(i) or (ii), that would make allowance for the additional communication to the public in the meaning of Article 11*bis*(1)(iii) by, e.g., the categories of establishments covered by the subparagraphs of Section 110(5). We believe that we have to analyse whether the exemptions in question cause unreasonable prejudice to the legitimate interests of right holders similarly in respect of each exclusive right. Our view is confirmed by the fact that, as we pointed out when examining the second condition of Article 13, particular exclusive rights conferred by the subparagraphs of Articles 11 and 11*bis* in relation to one and the same work may be held by different persons. . . .

[205]In respect of what could be the dividing line between "unreasonable" and "not unreasonable" prejudice, we consider the explanation of the Guide to the Berne Convention to be of persuasive value. It states in the context of the third condition of Article 9(2) of the Berne Convention, which is worded almost identically to Article 13 of the TRIPS Agreement but refers to exceptions to the reproduction right:

"Note that it is not a question of prejudice or no: all copying is damaging to some degree . . ." The paragraph goes on to discuss whether photocopying "prejudices the circulation of the review", whether it "might seriously cut in on its sales" and says that "[i]n cases where there would be serious loss of profit for the copyright owner, the law should provide him with some compensation (a system of compulsory licensing with equitable remuneration)." *See* Guide to the Berne Convention, ¶ 9.8, pp. 55-56. We do not believe that in this respect the benchmark has to be substantially different for reproduction rights, performance rights or broadcasting rights in the meanings of Articles 9, 11 or 11*bis* of the Berne Convention (1971).

(ii) The business exemption of subparagraph (B)

The European Communities focuses on an analysis of the potential economic effects of subparagraph (B) on the legitimate interests of right holders. It argues that the unreasonableness of the prejudice caused to the right holder becomes fully apparent when 73 per cent of all drinking establishments, 70 per cent of all eating establishments and 45 per cent of all retail establishments are unconditionally covered by the business exemption, while the rest of the establishments may also be exempted under conditions which are easy to meet. In its view, the denial of protection has been turned into the rule and protection of the exclusive right has become the exception.

The United States does not focus on questioning the correctness of these figures that indicate the percentage of US eating, drinking and retail establishments that fall within the size limits of subparagraph (B). Taking these figures as a starting-point for alternative calculations, the United States, however, contends that they are not useful for estimating the economic impact or prejudice caused by subparagraph (B) to right holders, because they fail to account for many relevant factors that determine whether a right holder would be economically prejudiced at all by the business exemption. In order to obtain a reasonable estimate of the number of establishments from which copyright owners have truly lost

revenue as a result of the business exemption, the United States subtracts from these figures those establishments that:

(i) do not play music at all;
(ii) rely on music from some source other than radio or TV (such as tapes, CDs, commercial background music services, jukeboxes, or live music);
(iii) were not licensed prior to the passage of the 1998 amendment and which the CMOs would not be able to license anyway;
(iv) would take advantage of the NLBA agreement, whose terms are practically identical to subparagraph (B), if the statutory exemption were not available; and
(v) would prefer to simply turn off the music rather than pay the fees demanded by the CMOs.

The United States concedes that it is impossible to estimate these figures, but assumes that there is ample reason to believe that they represent a substantial number of establishments.. . . .

No music or music from another source

In detailing its first, second and fifth reduction factor, the United States provides estimates on the percentages of restaurants that use various sources of music, which we have summarized . . . above. We agree that it is possible that some establishments that currently play broadcast music might decide to stop doing so, if they were required to pay fees to CMOs representing right holders in the absence of an exemption. But it is also evident that establishments that currently play recorded music may at any time decide to switch to music broadcast over the air or transmitted by cable in order to avoid paying licensing fees. Also, some establishments that do not play any music at all may start to use broadcast music, given that the only cost would be that of acquiring a sound system. Similarly, if amplified broadcast music would not be free of charge due to subparagraph (B) of Section 110(5), operators of establishments covered by that provision that currently use such broadcast music might switch to recorded music, to commercial background music services or to live music performances. Furthermore, an exemption that makes the use of music from one source free of charge is likely to affect, not only the number of establishments that opt for sources of music that require the payment of a licensing fee, but also the price for which the protected sources of music can be licensed.

It appears that the use of recorded music or commercial background music services can be easily replaced by the amplification of music transmitted over the air or by cable. Digital broadcasts and cable transmissions are increasing the supply of different types of music transmissions. The fact that one source of music is free of charge while another triggers copyright liability may have a significant impact on which source of music the operators of establishments choose, and on how much they are willing to pay for protected music. Therefore, in addition to the right holders' loss of revenue from the users that were newly exempted under subparagraph (B) of Section 110(5), the business exemption is also likely to reduce the amount of income that may be generated from restaurants and retail establishments for the use of recorded music or commercial background music services.

Although these considerations do not render irrelevant the statistics and estimations on the numbers and percentages of establishments that may play music from different sources or no music at all, it is clear that such statistics and estimations have to be considered with the *caveat* that, although they may reflect realities at a given point in time, they do not take into account the substitution between various sources of music that is likely to take place in the longer term.

Establishments not licensed before the 1998 Amendment and the NLBA Agreement

As to its third reduction factor, the United States submitted information concerning past licensing practices of establishments covered by Section 110(5). . . .

Based on these statistics about past licensing practices and ASCAP's revenue collection, the United States submits that the likely impact of the amended Section 110(5) on the revenues collected earlier by the CMOs from such establishments is likely to be minimal. . . .

The EC's main contention against the reduction factors applied by the United States to its estimates of potential prejudice is that actual distributions to right holders, past licensing practices and revenue collected or foregone by the CMOs in the past or at present are not representative of the potential economic effect of subparagraph (B), because collection practices of the CMOs are a function of the legal protection of the relevant exclusive rights.

More specifically, the European Communities points out that the longstanding exceptions to copyright protection (i.e., prior to 1976, the *Aiken* decision, the passage of the homestyle

exemption of the 1976 Copyright Act, subsequent court decisions in *Claire's Boutique* and *Edison Bros.*) render the actual royalty collection practices of the CMOs in the past unrepresentative for measuring losses to right holders. . . .

We recall our conclusion that in the application of the three conditions of Article 13 to an exemption in national law, both actual and potential effects of that exception are relevant. As regards the third condition in particular, we note that if only actual losses were taken into account, it might be possible to justify the introduction of a new exception to an exclusive right irrespective of its scope in situations where the right in question was newly introduced, right holders did not previously have effective or affordable means of enforcing that right, or that right was not exercised because the right holders had not yet built the necessary collective management structure required for such exercise. While under such circumstances the introduction of a new exception might not cause immediate additional loss of income to the right holder, he or she could never build up expectations to earn income from the exercise of the right in question. We believe that such an interpretation, if it became the norm, could undermine the scope and binding effect of the minimum standards of intellectual property rights protection embodied in the TRIPS Agreement.[219]

We recall our consideration, in relation to the second condition of Article 13, of the relatively low level of licensing, before the 1998 Amendment, of restaurants above the *Aiken* size limits that were likely to play music. We concluded that, without further evidence, the fact that some similarly situated users were licensed, while others were not, could not be taken as an indication of normal exploitation. As regards the third condition of Article 13, we have not been provided with any persuasive arguments why the legitimate interests of the right holder would differ in respect of those similarly situated users that are currently licensed and those that are not; neither have we been given any persuasive explanation why some of these users were licensed and others not.

Therefore, in considering the prejudice to the legitimate interests of right holders caused by the business exemption, we have to take into account not only the actual loss of income from those restaurants that were licensed by the CMOs at the time that the exemption become effective, but also the loss of potential revenue from other restaurants of similar size likely to play music that were not licensed at that point.

As to the fourth US reduction factor, we note that we have already addressed the US argument about the similarity between the 1998 Amendment and the group licensing agreement reached between the CMOs and the NLBA in 1995 in our discussion of the second condition of Article 13. In that context, we noted that a private agreement constitutes a form of exercising exclusive rights and is by no means determinative for assessing the compliance of an exemption provided for in national law pursuant to international treaty obligations.

Summary of the relevance of the above factors

Consequently, we caution against attributing too much relevance to the factors proposed by the United States for reducing the EC figures intended to indicate the potential prejudice in relation to eating, drinking or retail establishments, and, accordingly, for the determination of the level of prejudice caused by the business exemption to the legitimate interests of right holders. At the same

[219] In comparison, we recall that in relation to the second condition, we noted that a low level of licensing cannot be determinative of normal exploitation to the extent that it results from lack of legal protection or of effective or affordable means of enforcement.

time, we recognize the difficulty of quantifying the economic value of potential prejudice. Most of the factual information on the current US licensing market provided by the parties relates to the immediate actual losses to the right holders; in particular, both parties have provided us with detailed calculations of the loss of income to the right holders resulting from the 1998 Amendment. Keeping in mind our conclusion that such figures cannot alone be determinative for the assessment of the level of prejudice suffered by right holders, we will now examine these calculations.

The alternative calculations by the parties of losses suffered by right holders

The United States estimates that the maximum annual loss to EC right holders of distributions from the largest US collecting society, ASCAP, as a result of the Section 110(5) exemption, is in the range of $294,113 to $586,332. Applying the same analysis, it estimates that the loss from the second largest society, BMI, is $122,000. In its calculation of ASCAP's distributions, the United States takes as a starting-point the total royalties paid to EC right holders by ASCAP. Second, it reduces the amount attributable to general licensing (i.e. licensing of commercial background music services, and a wide variety of licensees, including conventions and sports arenas, as well as restaurants, bars and retail establishments). Third, it makes a deduction to

account for licensing revenue from general licensees that do not meet the statutory definition of an "establishment". Fourth, it deducts from the general licensing revenue the portion that is due to music from sources other than radio or television (e.g., tapes, CDs, commercial background music services, jukeboxes, live performances); and fifth, it reduces this amount to account for licensing revenue from general licensing of eating, drinking or retail establishments which play the radio but do not meet the size and equipment limitations of subparagraph (B) and thus do not qualify for the business exemption. . . .

The European Communities estimates that the annual loss to all right holders amounts to $53.65 million. The EC calculation takes as the starting-point the number of establishments that may qualify for the exception. Second, the European Communities makes a reduction from that number using the US hypotheses that 30.5 per cent of all eating and drinking establishments with a surface area below 3,750 square feet actually play music from the radio. Third, it applies to the remaining establishments the appropriate licensing fees selected from the licensing schedules of ASCAP and BMI. . . .

Overall, we consider that neither estimate is devoid of relevance for the purposes of estimating whether prejudice caused by subparagraph (B) to the legitimate interests of right holders amounts to a level that could be deemed unreasonable. The difference between the results of these two calculations can, to an extent, be explained by differences in the starting points and the parameters used for the calculations. The calculations use also a number of similar assumptions. We highlight below some of these differences and similarities.

The US estimate can be characterized as a "top-down" approach, which takes as its starting-point ASCAP's and the BMI's average total distributions of domestic income for the years 1996-1998. We recall that the United States estimates that only 10.5-19 per cent of restaurants were licensed at that time. Hence, this calculation based on the pre-existing collection does not take into account the potential income from establishments that were already covered at that time by the old homestyle exemption or from the larger restaurants that used music but were not licensed at that time.

The EC calculation can, in turn, be characterized as a "bottom-up" approach. It takes as its starting point the total number of restaurants and retail establishments that fall under the size limits of the exemption; then it applies to those establishments

the lowest ASCAP and BMI licence fees, assuming a 100 per cent compliance rate among the establishments concerned.

The EC calculation covers all right holders, while the US calculation covers only the EC right holders' share. The United States estimates that this share is between 5 and 13.7 per cent of ASCAP's distributions of domestic income, and 8.15 per cent of the BMI's distributions.

Both calculations make a number of reductions from the above starting points based on estimations. In the absence of more detailed information from ASCAP, the United States estimates that 50 per cent of ASCAP's general licensing revenue is derived from the establishments covered by the business exemption. Based on the NRA and NLBA surveys, the United States estimates that 30.5 per cent of the establishments covered by the exemption play radio; the European Communities also uses this figure. Averaging the NRA estimations of the percentage of restaurants that meet the size limits, and the D&B study on the equivalent percentage of retail establishments, the United States estimates that 52.1 per cent of all establishments fall below the size limits of the business exemption.

Neither calculation takes into account the distributions of the third US CMO, SESAC, or music played on the television. The calculations do not attempt to estimate the losses from establishments above the size limits of subparagraph (B) of Section 110(5), which however comply with the respective equipment limitations. It appears that neither party assumes that these factors would essentially change the outcome of their estimations.

We note that both calculations include many estimations and assumptions. The fact that neither party was in a position to provide more direct information on the revenues collected from the establishments affected by the business exemption does not facilitate the estimation of the immediate effect of the exemption in terms of annual losses to the right holders.

One of the major differences between the calculations is that the US calculation takes into account the loss of income only from those establishments that were not already exempted under the old homestyle exemption and were actually paying licence fees. Given our considerations on the potential impact of the exemption, we are of the view that the loss of potential income from other users of music is also relevant.. . . .

The United States also submits that its calculation does not take into account steps that ASCAP and the BMI might take to minimize any impact of the 1998 Amendment (e.g., focusing

licensing resources exclusively on larger stores that generally pay larger fees, or by charging more for the playing of music from CDs and tapes). In the US view, the analysis should also take into account the limited resources of the CMOs and the small percentage of the market actually licensed by the CMOs. In the light of the certainty provided by the precise limitations of the business exemption contained in subparagraph (B), the CMOs can now efficiently redirect their licensing resources toward those establishments not eligible for the business exemption, and thus compensate for any minor prejudice they might suffer. The United States refers to an ASCAP statement of its intent to "reverse the effects" of the 1998 Amendment by redirecting its licensing resources toward establishments not covered by subparagraph (B) as well as by generating additional income by encouraging the use of live and recorded music, for which there is no exemption.

In our view, this line of argument is irrelevant for the issue before us, i.e., whether subparagraph (B) complies with Article 13's third condition. If we were to find that subparagraph (B) does not meet the conditions for invoking the exception of Article 13, there is no rule in WTO law compelling another Member or private parties affected by a Member's WTO-inconsistent measure to take steps to remedy any actual, or reduce the potential, nullification or impairment caused.

. . . In the light of our analysis of the prejudice caused by the exemption, including its actual and potential effects, we are of the view that the United States has not demonstrated that the business exemption does not unreasonably prejudice the legitimate interests of the right holder.

Accordingly, we conclude that the business exemption of subparagraph (B) of Section 110(5) does not meet the requirements of the third condition of Article 13 of the TRIPS Agreement.

(iii) The homestyle exemption of subparagraph (A). . . .

We recall our discussion concerning the legislative history of the original homestyle exemption in connection with the first and second conditions of Article 13. In particular, as regards the beneficiaries of the exemption, the Conference Report (1976) elaborated on the rationale of the exemption by noting that the intent was to exempt a small commercial establishment "which was not of sufficient size to justify, as a practical matter, a subscription to a commercial background music service". We also recall the estimations on the percentages of establishments covered by the exemption. Moreover, the exemption was

applicable to such establishments only if they use homestyle equipment. . . .

Furthermore, we recall the common understanding of the parties that the operation of the homestyle exemption as contained in the 1998 Amendment has been limited, as regards musical works, to the public communication of transmissions embodying dramatic renditions of "dramatic" musical works (such as operas, operettas, musicals and other similar dramatic works). We have not been presented with evidence suggesting that right holders would have licensed or attempted to license the public communication, within the meaning of Article 11(1)(ii) or 11*bis*(1)(iii) of the Berne Convention (1971), of broadcasts of performances embodying dramatic renditions of "dramatic" musical works either before the enactment of the original homestyle exemption or after the 1998 Amendment. We also fail to see how communications to the public of renditions of entire dramatic works could acquire such economic or practical importance that it could cause unreasonable prejudice to the legitimate interests of right holders.

We note that playing music by the small establishments covered by the exemption by means of homestyle apparatus has never been a significant source of revenue collection for CMOs. We recall our view that, for the purposes of assessing unreasonable prejudice to the legitimate interests of right holders, potential losses of right holders, too, are relevant. However, we have not been presented with persuasive information suggesting that such potential effects of significant economic or practical importance could occur that they would give rise to an unreasonable level of prejudice to legitimate interests of right holders. In particular, as regards the exemption as amended in 1998 to exclude from its scope nondramatic musical works, the European Communities has not explicitly claimed that the exemption would currently cause any prejudice to right holders.

In the light of the considerations above, we conclude that the homestyle exemption contained in subparagraph (A) of Section 110(5) does not cause unreasonable prejudice to the legitimate interests of the right holders within the meaning of the third condition of Article 13.

VII. CONCLUSIONS AND RECOMMENDATIONS

In the light of the findings . . . above, the Panel concludes that:

(a)Subparagraph (A) of Section 110(5) of the US Copyright Act meets the requirements of Article 13 of the TRIPS Agreement and is thus consistent with

Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971) as incorporated into the TRIPS Agreement by Article 9.1 of that Agreement.

(b)Subparagraph (B) of Section 110(5) of the US Copyright Act does not meet the requirements of Article 13 of the TRIPS Agreement and is thus inconsistent with Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971) as incorporated into the TRIPS Agreement by Article 9.1 of that Agreement.

The Panel *recommends* that the Dispute Settlement Body request the United States to bring subparagraph (B) of Section 110(5) into conformity with its obligations under the TRIPS Agreement.

Richard Owens, TRIPs and the Fairness in Music Arbitration:
The Repercussions
25 EUR. INTELL. PROP. REV. 49 (2003)

On July 27, 2000, the World Trade Organization ("WTO") Dispute Settlement Body ("DSB") adopted a Panel Report containing the first ruling of a WTO panel on the scope of copyright protection under the TRIPs Agreement. Based on a complaint against the United States brought by the European Commission ("EC"), the Report concluded that § 110(5)(B) of the US Copyright Act, as amended by the Fairness in Music Licensing Act ("FMLA") of 1998, is incompatible with the rights of public performance and communication to the public under Arts 11bis(1)(iii) and 11(1)(ii) of the Berne
Convention, and by virtue of incorporation of those rights in the TRIPs Agreement, with the "three-step test" in Art.13 of TRIPs. On the basis of the Panel Report, the DSB requested that the United States bring its legislation into line with TRIPs within "a reasonable period of time", which came to an end on December 31, 2001 without amendment of the Copyright Act.
On July 23, 2001, the EC and the United States asked an arbitration panel constituted under Art.25 of the WTO Dispute Settlement Understanding ("DSU") to determine "the level of nullification or impairment of benefits to the European Communities as a result of the operation of § 110(5)(b) of the US Copyright Act". On October 12, 2001 the arbitrators issued their award, which was notified to the DSB and the TRIPs Council on November 9, 2001. According to the award, the level of EC benefits that are being nullified or impaired as a result of the operation of Section 110(5)(B) is US$1.1 million.

CLASS 8, TRIPS Derogation: Articles 27, 28, 30 and 70 TRIPS (patents)

TRIPS AGREEMENT

Article 2(1)

In respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1-12 and 19 of the Paris Convention (1967).

Article 6 *Exhaustion*

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

Article 27(1) *Patentable Subject Matter*

[P]atents shall be available and patent rights enjoyable without discrimination as to . . . the field of technology . . . .

Article 28(1) *Rights Conferred*

A patent shall confer on its owner the following exclusive rights:
(a) where the subject matter of a patent is a product, to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product;
(b) where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.

Article 30 *Exceptions to Rights Conferred*

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.

CANADA – PATENT PROTECTION OF PHARMACEUTICAL PRODUCTS
Doc. WT/DS114/R (WTO Dispute Settlement Panel, Mar. 17, 2000)

II. Factual Aspects

[Section 55.2 of Canada's Patent Act excluded from liability for infringement for making, using, or selling a patented product or using a patented process "solely for uses reasonably related to the development and submission of information required under any law of Canada, a province or a country other than Canada that regulates the manufacture, construction, use or sale of any product" or "during the applicable period provided for by the regulations, for the manufacture and storage of articles intended for sale after the date on which the term of the patent expires." It also provided that the Governor in Council "may make regulations for the purposes of subsection (2), but any period provided for by the regulations must terminate immediately preceding the date on which the term of the patent expires."]

The regulatory review procedure [for new drugs] is time consuming. It may take from one to two-and-a-half years to complete. However, prior to this period, a generic manufacturer will have spent from two to four years in the development of its regulatory submission. Thus, the overall time required for a generic manufacturer to develop its submission and to complete the regulatory review process ranges from three to six-and-a-half years. After the development of its regulatory submission, the generic manufacturer will file an Abbreviated New Drug Submission ("ANDS") with Health Canada. The generic manufacturer files an ANDS because, typically, it is relying on comparative studies to a drug product that has proven to be safe and effective. An innovator, on the other hand, would file a New Drug Submission, since it must provide full pre-clinical and clinical data to establish the safety and efficacy of the drug in question. For an innovator, it takes approximately eight to 12 years to develop a drug and receive regulatory approval, which takes place during the 20-year patent term. The resulting period of market exclusivity under the current Canadian Patent Act varies from drug to drug. Estimated averages, at the time that the Act came into force, range from eight to ten years, according to the Pharmaceutical Manufacturers Association of Canada (PMAC), or 12 to 14 years, according to the Canadian Drug Manufacturers Association (CDMA).

....

III. Findings And Recommendations Requested By The Parties

The European Communities and their member States requested the Panel to make the following rulings, findings and recommendations: . . .

That Canada, by allowing manufacturing and stockpiling of pharmaceutical products without the consent of the patent holder during the six months immediately prior to the expiration of the 20-year patent term by virtue of the provisions of Section 55.2(2) and 55.2(3) of the Patent Act together with the

Manufacturing and Storage of Patented Medicines Regulations, violated its obligations under Article 28.1 together with Article 33 of the TRIPS Agreement.

That Canada, by treating patent holders in the field of pharmaceutical inventions by virtue of these provisions less favourably than inventions in all other fields of technology, violated its obligations under Article 27.1 of the TRIPS Agreement requiring patents to be available and patent rights enjoyable without discrimination as to the field of technology.

That the provisions of Section 55.2(1) concerning activities related to the development and submission of information required to obtain marketing approval for pharmaceutical products carried out without the consent of the patent holder violated the provisions of Article 28.1 of the TRIPS Agreement.

That Canada, by treating patent holders in the field of pharmaceutical inventions by virtue of these provisions less favourably than inventions in all other fields of technology, violated its obligations under Article 27.1 of the TRIPS Agreement requiring patents to be available and patent rights enjoyable without discrimination as to the field of technology.

That the violations referred to above constituted prima facie nullification or impairment under Article 64.1 of the TRIPS Agreement, Article XXIII of GATT 1994 and Article 3.8 of the DSU.

That the DSB request Canada to bring its domestic legislation into conformity with its obligations under the TRIPS Agreement.

Canada requested the Panel to reject the complaints of the European Communities and their member States on the basis of the following findings:
Section 55.2(1) and 55.2(2) of the Patent Act conform with Canada's obligations under the TRIPS Agreement, because:
(a) Each of these provisions is a “limited exception” to the exclusive rights conferred by a patent within the meaning of Article 30 of the TRIPS Agreement;
(b) Neither of these provisions discriminates, within the meaning of Article 27 of the TRIPS Agreement, as to the field of technology in which any relevant invention occurs or has occurred, because: the prohibition in Article 27.1 against discrimination on the basis of field of technology does not apply to allowable limited exceptions, or, if the Panel were to find Article 27.1 applicable, because: the limited exceptions of Section 55.2(1) and 55.2(2) are not expressly related to any particular field of technology;
(c) Neither of these provisions reduces the minimum term of protection referred to in Article 33 of the TRIPS Agreement to a term that is less than that minimum.
…

VII. Findings
....
C. Principles of Interpretation

The legal issues in this dispute primarily involve differences over interpretation of the key TRIPS provisions invoked by the parties, chiefly Articles 27.1, 30 and 33. The rules that govern the interpretation of WTO agreements are the rules of treaty

interpretation stated in Articles 31 and 32 of the Vienna Convention. The starting point is the rule of Article 31(1) which states:

A treaty is to 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.

The parties have submitted arguments on each of these elements, as well as further arguments based on subsequent practice by certain WTO Members, thus relying on Article 31(3)(b), which reads in relevant part as follows:

There shall be taken into account, together with the context: (a) []; (b) any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation."
The parties have also advanced arguments based on the negotiating history of the TRIPS provisions in dispute. Negotiating history falls within the category of "Supplementary Means of Interpretation" and is governed by the rule of Article 32 of the Vienna Convention, which provides as follows:

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.

....

D. Burden of Proof

[I]n the present case, it was the Panel's view that the EC bears the burden to present evidence and argument sufficient to establish a prima facie case that Canada has violated Articles 27.1, 28.1 and 33 of the TRIPS Agreement. It would be up to Canada to advance sufficient argument and evidence to rebut such a prima facie case. Canada has, for all practical purposes, conceded the violation of Article 28, because it has resorted to the exception of Article 30 of the TRIPS Agreement in this case. Since Article 30 is an exception to the obligations of the TRIPS Agreement, it would be up to Canada to demonstrate that the provisions of Sections 55.2(1) and 55.2(2) comply with the criteria laid down in Article 30. It is on this basis that the Panel approached the analysis of the claims submitted to it.

E. Section 55.2(2) (The Stockpiling Exception)

The Panel began by considering the claims of violation concerning Section 55.2(2), the so-called stockpiling provision. It began by considering the EC claim that this

measure was in violation of Article 28.1 of the TRIPS Agreement, and Canada's defence that the measure was an exception authorized by Article 30 of the Agreement.

....

Both parties agreed upon the basic structure of Article 30. Article 30 establishes three criteria that must be met in order to qualify for an exception: (1) the exception must be “limited”; (2) the exception must not "unreasonably conflict with normal exploitation of the patent" ; (3) the exception must not "unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties". The three conditions are cumulative, each being a separate and independent requirement that must be satisfied. Failure to comply with any one of the three conditions results in the Article 30 exception being disallowed.

The three conditions must, of course, be interpreted in relation to each other. Each of the three must be presumed to mean something different from the other two, or else there would be redundancy. Normally, the order of listing can be read to suggest that an exception that complies with the first condition can nevertheless violate the second or third, and that one which complies with the first and second can still violate the third. The syntax of Article 30 supports the conclusion that an exception may be “limited” and yet fail to satisfy one or both of the other two conditions. The ordering further suggests that an exception that does not "unreasonably conflict with normal exploitation" could nonetheless "unreasonably prejudice the legitimate interests of the patent owner".

....

In the Panel's view, Article 30's very existence amounts to a recognition that the definition of patent rights contained in Article 28 would need certain adjustments. On the other hand, the three limiting conditions attached to Article 30 testify strongly that the negotiators of the Agreement did not intend Article 30 to bring about what would be equivalent to a renegotiation of the basic balance of the Agreement. Obviously, the exact scope of Article 30's authority will depend on the specific meaning given to its limiting conditions. The words of those conditions must be examined with particular care on this point. 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.

Canada asserted that the word “limited” should be interpreted according to the conventional dictionary definition, such as "confined within definite limits", or "restricted in scope, extent, amount". Canada argued that the stockpiling exception in Section 55.2(2) is restricted in scope because it has only a limited impact on a patent owner's rights. The stockpiling exception, Canada noted, does not affect the patent owner's right to an exclusive market for "commercial" sales during the patent term, since the product that is manufactured and stockpiled during the final six months of the term cannot be sold in competition with the patent owner until the patent expires. By "commercial sales", Canada clearly meant sales to the ultimate consumer, because it acknowledged that sales of patented ingredients to producers engaged in authorized stockpiling is permitted. Thus, Canada was arguing that an exception is “limited” as long as the exclusive right to sell to the ultimate consumer

during the term of the patent is preserved. In addition, Canada also claimed that the exception is further limited by the six-month duration of the exception, and by the fact that it can be used only by persons that have made, constructed or used the invention under Section 55.2(1).

The EC interpreted the word “limited” to connote a narrow exception, one that could be described by words such as “narrow, small, minor, insignificant or restricted”. The EC measured the “limited” quality of the proposed exception by reference to its impact on the exclusionary rights granted to the patent owner under Article 28.1. Applying that measure, the EC contended that the stockpiling exception is not “limited” because it takes away three of the five Article 28.1 rights - the rights to exclude “making”, “using” and “importing”. The EC argued that the impairment of three out of five basic rights is in itself extensive enough to be considered “not limited”. The EC further contended that limitation of the exception to the last six months of the patent term does not constitute a limited impairment of rights when six months is taken as a percentage of the 20-year patent term, and especially not when taken as a percentage of the actual eight to 12-year period of effective market exclusivity enjoyed by most patented pharmaceuticals. In addition, the EC noted, there was no limitation on the quantities that could be produced during this period, nor any limitation on the markets in which such products could be sold. Finally, the EC pointed out that no royalty fees are due for such production, and that the patent holder does not even have a right to be informed of the use of the patent.

In considering how to approach the parties' conflicting positions regarding the meaning of the term “limited exceptions”, the Panel was aware that the text of Article 30 has antecedents in the text of Article 9(2) of the Berne Convention. However, the words “limited exceptions” in Article 30 of the TRIPS Agreement are different from the corresponding words in Article 9(2) of the Berne Convention, which reads “in certain special cases”. The Panel examined the documented negotiating history of TRIPS Article 30 with respect to the reasons why negotiators may have chosen to use the term “limited exceptions” in place of “in special circumstances”. The negotiating records show only that the term “limited exceptions” was employed very early in the drafting process, well before the decision to adopt a text modelled on Berne Article 9(2), but do not indicate why it was retained in the later draft texts modelled on Berne Article 9(2).

The Panel agreed with the EC that, as used in this context, the word “limited” has a narrower connotation than the rather broad definitions cited by Canada. Although the word itself can have both broad and narrow definitions, the narrower being indicated by examples such as “a mail train taking only a limited number of passengers”, the narrower definition is the more appropriate when the word “limited” is used as part of the phrase “limited exceptions”. The word "exception" by itself connotes a limited derogation, one that does not undercut the body of rules from which it is made. When a treaty uses the term “limited exceptions”, the word “limited” must be given a meaning separate from the limitation implicit in the word "exception" itself. The term “limited exceptions” must therefore be read to connote a narrow exception”one which makes only a small diminution of the rights in question.

The Panel agreed with the EC interpretation that “limited” is to be measured by the extent to which the exclusive rights of the patent owner have been curtailed. The full text of Article 30 refers to "limited exceptions to the exclusive rights conferred by a patent". In the absence of other indications, the Panel concluded that it would be justified in reading the text literally, focusing on the extent to which legal rights have been curtailed, rather than the size or extent of the economic impact. In support of this conclusion, the Panel noted that the following two conditions of Article 30 ask more particularly about the economic impact of the exception, and provide two sets of standards by which such impact may be judged. The term “limited exceptions” is the only one of the three conditions in Article 30 under which the extent of the curtailment of rights as such is dealt with.

In the Panel's view, the question of whether the stockpiling exception is a “limited” exception turns on the extent to which the patent owner's rights to exclude "making" and "using" the patented product have been curtailed. The right to exclude "making" and "using" provides protection, additional to that provided by the right to exclude sale, during the entire term of the patent by cutting off the supply of competing goods at the source and by preventing use of such products however obtained. With no limitations at all upon the quantity of production, the stockpiling exception removes that protection entirely during the last six months of the patent term, without regard to what other, subsequent, consequences it might have. By this effect alone, the stockpiling exception can be said to abrogate such rights entirely during the time it is in effect.

In view of Canada's emphasis on preserving commercial benefits before the expiration of the patent, the Panel also considered whether the market advantage gained by the patent owner in the months after expiration of the patent could also be considered a purpose of the patent owner's rights to exclude "making" and "using" during the term of the patent. In both theory and practice, the Panel concluded that such additional market benefits were within the purpose of these rights. In theory, the rights of the patent owner are generally viewed as a right to prevent competitive commercial activity by others, and manufacturing for commercial sale is a quintessential competitive commercial activity, whose character is not altered by a mere delay in the commercial reward. In practical terms, it must be recognized that enforcement of the right to exclude "making" and "using" during the patent term will necessarily give all patent owners, for all products, a short period of extended market exclusivity after the patent expires. The repeated enactment of such exclusionary rights with knowledge of their universal market effects can only be understood as an affirmation of the purpose to produce those market effects.

For both these reasons, the Panel concluded that the stockpiling exception of Section 55.2(2) constitutes a substantial curtailment of the exclusionary rights required to be granted to patent owners under Article 28.1 of the TRIPS Agreement. Without seeking to define exactly what level of curtailment would be disqualifying, it was clear to the Panel that an exception which results in a substantial curtailment of this dimension cannot be considered a “limited exceptions” within the meaning of Article 30 of the Agreement.

Neither of the two "limitations" upon the scope of the measure are sufficient to alter this conclusion. First, the fact that the exception can only be used by those persons who have utilized the regulatory review exception of Section 55.2(1) does limit the scope of the exception both to those persons and to products requiring regulatory approval. In regard to the limitation to such persons, the Panel considered this was not a real limitation since only persons who satisfy regulatory requirements would be entitled to market the product. In regard to the limitation to such products, the Panel considered that the fact that an exception does not apply at all to other products in no way changes its effect with regard to the criteria of Article 30. Each exception must be evaluated with regard to its impact on each affected patent, independently. Second, the fact that the exception applied only to the last six months of the patent term obviously does reduce its impact on all affected patented products, but the Panel agreed with the EC that six months was a commercially significant period of time, especially since there were no limits at all on the volume of production allowed, or the market destination of such production.

Having concluded that the exception in Section 55.2(2) of the Canadian Patent Act does not satisfy the first condition of Article 30 of the TRIPS Agreement, the Panel therefore concluded that Section 55.2(2) is inconsistent with Canada's obligations under Article 28.1 of the Agreement. This conclusion, in turn, made it unnecessary to consider any of the other claims of inconsistency raised by the European Communities. Accordingly, the Panel did not consider the claims of inconsistency under the second and third conditions of Article 30, the claim of inconsistency with TRIPS Article 27.1, and the claim of inconsistency with Article 33.

....

F. Section 55.2(1) (The Regulatory Review Exception)

[The panel concluded that Canada's regulatory review exception is a “limited exceptions” within the meaning of TRIPS Article 30.]

The second condition of Article 30 prohibits exceptions that "unreasonably conflict with a normal exploitation of the patent". Canada took the position that "exploitation" of the patent involves the extraction of commercial value from the patent by "working" the patent, either by selling the product in a market from which competitors are excluded, or by licensing others to do so, or by selling the patent rights outright. The European Communities also defined "exploitation" by referring to the same three ways of "working" a patent. The parties differed primarily on their interpretation of the term "normal".

. . . .

The normal practice of exploitation by patent owners, as with owners of any other intellectual property right, is to exclude all forms of competition that could detract significantly from the economic returns anticipated from a patent's grant of market exclusivity. The specific forms of patent exploitation are not static, of course, for to be effective exploitation must adapt to changing forms of competition due to technological development and the evolution of marketing practices. Protection of all normal exploitation practices is a key element of the policy reflected in all patent laws. Patent laws establish a carefully defined period of market exclusivity as an

inducement to innovation, and the policy of those laws cannot be achieved unless patent owners are permitted to take effective advantage of that inducement once it has been defined.

Canada has raised the argument that market exclusivity occurring after the 20-year patent term expires should not be regarded as "normal". The Panel was unable to accept that as a categorical proposition. Some of the basic rights granted to all patent owners, and routinely exercised by all patent owners, will typically produce a certain period of market exclusivity after the expiration of a patent. For example, the separate right to prevent "making" the patented product during the term of the patent often prevents competitors from building an inventory needed to enter the market immediately upon expiration of a patent. There is nothing abnormal about that more or less brief period of market exclusivity after the patent has expired.

The Panel considered that Canada was on firmer ground, however, in arguing that the additional period of de facto market exclusivity created by using patent rights to preclude submissions for regulatory authorization should not be considered "normal". The additional period of market exclusivity in this situation is not a natural or normal consequence of enforcing patent rights. It is an unintended consequence of the conjunction of the patent laws with product regulatory laws, where the combination of patent rights with the time demands of the regulatory process gives a greater than normal period of market exclusivity to the enforcement of certain patent rights. It is likewise a form of exploitation that most patent owners do not in fact employ. For the vast majority of patented products, there is no marketing regulation of the kind covered by Section 55.2(1), and thus there is no possibility to extend patent exclusivity by delaying the marketing approval process for competitors.

[The panel found that the regulatory review exception did not conflict with the "normal" exploitation of patents within the meaning of Article 30.]

The third condition of Article 30 is the requirement that the proposed exception must not"unreasonably prejudice the legitimate interests of the patent owner, taking into account the legitimate interests of third parties". Although Canada, as the party asserting the exception provided for in Article 30, bears the burden of proving compliance with the conditions of that exception, the order of proof is complicated by the fact that the condition involves proving a negative. One cannot demonstrate that no legitimate interest of the patent owner has been prejudiced until one knows what claims of legitimate interest can be made. Likewise, the weight of legitimate third party interests cannot be fully appraised until the legitimacy and weight of the patent owner's legitimate interests, if any, are defined. Accordingly, without disturbing the ultimate burden of proof, the Panel chose to analyse the issues presented by the third condition of Article 30 according to the logical sequence in which those issues became defined.

....

To make sense of the term "legitimate interests" in this context, that term must be defined in the way that it is often used in legal discourse"as a normative claim calling for protection of interests that are "justifiable" in the sense that they are supported by relevant public policies or other social norms. This is the sense of the word that often appears in statements such as "X has no legitimate interest in being

able to do Y". We may take as an illustration one of the most widely adopted Article 30-type exceptions in national patent laws"the exception under which use of the patented product for scientific experimentation, during the term of the patent and without consent, is not an infringement. It is often argued that this exception is based on the notion that a key public policy purpose underlying patent laws is to facilitate the dissemination and advancement of technical knowledge and that allowing the patent owner to prevent experimental use during the term of the patent would frustrate part of the purpose of the requirement that the nature of the invention be disclosed to the public. To the contrary, the argument concludes, under the policy of the patent laws, both society and the scientist have a "legitimate interest" in using the patent disclosure to support the advance of science and technology. While the Panel draws no conclusion about the correctness of any such national exceptions in terms of Article 30 of the TRIPS Agreement, it does adopt the general meaning of the term "legitimate interests" contained in legal analysis of this type.

. . . .

The negotiating history of the TRIPS Agreement itself casts no further illumination on the meaning of the term "legitimate interests", but the negotiating history of Article 9(2) of the Berne Convention, from which the text of the third condition was clearly drawn, does tend to affirm the Panel's interpretation of that term. With regard to the TRIPS negotiations themselves, the meaning of several important drafting changes turns out to be equivocal upon closer examination. The negotiating records of the TRIPS Agreement itself show that the first drafts of the provision that was to become Article 30 contemplated authorizing "limited exceptions" that would be defined by an illustrative list of exceptions"private use, scientific use, prior use, a traditional exception for pharmacists, and the like. Eventually, this illustrative list approach was abandoned in favour of a more general authorization following the outlines of the present Article 30. The negotiating records of the TRIPS Agreement give no explanation of the reason for this decision. The text of the present, more general version of Article 30 of the TRIPS Agreement was obviously based on the text of Article 9(2) of the Berne Convention. Berne Article 9(2) deals with exceptions to the copyright holder's right to exclude reproduction of its copyrighted work without permission. The text of Article 9(2) is as follows:

It shall be a matter for legislation in the countries of the Union to permit the reproduction of [literary and artistic] works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.

The text of Berne Article 9(2) was not adopted into Article 30 of the TRIPS Agreement without change. Whereas the final condition in Berne Article 9(2) ("legitimate interests") simply refers to the legitimate interests of the author, the TRIPS negotiators added in Article 30 the instruction that account must be taken of "the legitimate interests of third parties". Absent further explanation in the records of the TRIPS negotiations, however, the Panel was not able to attach a substantive

meaning to this change other than what is already obvious in the text itself, namely that the reference to the"legitimate interests of third parties" makes sense only if the term "legitimate interests" is construed as a concept broader than legal interests.

....

In sum, after consideration of the ordinary meaning of the term "legitimate interests", as it is used in Article 30, the Panel was unable to accept the EC's interpretation of that term as referring to legal interests pursuant to Article 28.1. Accordingly, the Panel was unable to accept the primary EC argument with regard to the third condition of Article 30. It found that the EC argument based solely on the patent owner's legal rights pursuant to Article 28.1, without reference to any more particular normative claims of interest, did not raise a relevant claim of non-compliance with the third condition of Article 30.

After reaching the previous conclusion concerning the EC's primary argument under the"legitimate interests" condition of Article 30, the Panel then directed its attention to another line of argument raised in statements made by the EC and by one third party. This second line of argument called attention to the fact that patent owners whose innovative products are subject to marketing approval requirements suffer a loss of economic benefits to the extent that delays in obtaining government approval prevent them from marketing their product during a substantial part of the patent term. According to information supplied by Canada, regulatory approval of new pharmaceuticals usually does not occur until approximately eight to 12 years after the patent application has been filed, due to the time needed to complete development of the product and the time needed to comply with the regulatory procedure itself. The result in the case of pharmaceuticals, therefore, is that the innovative producer is in fact able to market its patented product in only the remaining eight to 12 years of the 20-year patent term, thus receiving an effective period of market exclusivity that is only 40-60 per cent of the period of exclusivity normally envisaged in a 20-year patent term. The EC argued that patent owners who suffer a reduction of effective market exclusivity from such delays should be entitled to impose the same type of delay in connection with corresponding regulatory requirements upon the market entry of competing products. According to the EC,

[T]here exists no reason why the research based pharmaceutical enterprise is obliged to accept the economic consequence of patent term erosion because of marketing approval requirements which reduce their effective term of protection to 12-8 years while the copy producer should be entirely compensated for the economic consequence of the need of marketing approval for his generic product, and at the expense of the inventor and patent holder.

....

The type of normative claim put forward by the EC has been affirmed by a number of governments that have enacted de jure extensions of the patent term, primarily in the case of pharmaceutical products, to compensate for the de facto diminution of the normal period of market exclusivity due to delays in obtaining marketing approval. According to the information submitted to the Panel, such extensions

have been enacted by the European Communities, Switzerland, the United States, Japan, Australia and Israel. The EC and Switzerland have done so while at the same time allowing patent owners to continue to use their exclusionary rights to gain an additional, de facto extension of market exclusivity by preventing competitors from applying for regulatory approval during the term of the patent. The other countries that have enacted de jure patent term extensions have also, either by legislation or by judicial decision, created a regulatory review exception similar to Section 55.2(1), thereby eliminating the possibility of an additional de facto extension of market exclusivity.

....

This positive response to the claim for compensatory adjustment has not been universal, however. In addition to Canada, several countries have adopted, or are in the process of adopting, regulatory review exceptions similar to Section 55.2(1) of the Canadian Patent Act, thereby removing the de facto extension of market exclusivity, but these countries have not enacted, and are not planning to enact, any de jure extensions of the patent term for producers adversely affected by delayed marketing approval. When regulatory review exceptions are enacted in this manner, they represent a decision not to restore any of the period of market exclusivity due to lost delays in obtaining marketing approval. Taken as a whole, these government decisions may represent either disagreement with the normative claim made by the EC in this proceeding, or they may simply represent a conclusion that such claims are outweighed by other equally legitimate interests.

On balance, the Panel concluded that the interest claimed on behalf of patent owners whose effective period of market exclusivity had been reduced by delays in marketing approval was neither so compelling nor so widely recognized that it could be regarded as a "legitimate interest" within the meaning of Article 30 of the TRIPS Agreement. Notwithstanding the number of governments that had responded positively to that claimed interest by granting compensatory patent term extensions, the issue itself was of relatively recent standing, and the community of governments was obviously still divided over the merits of such claims. Moreover, the Panel believed that it was significant that concerns about regulatory review exceptions in general, although well known at the time of the TRIPS negotiations, were apparently not clear enough, or compelling enough, to make their way explicitly into the recorded agenda of the TRIPS negotiations. The Panel believed that Article 30's "legitimate interests" concept should not be used to decide, through adjudication, a normative policy issue that is still obviously a matter of unresolved political debate.

Consequently, having considered the two claims of "legitimate interest" put forward by the EC, and having found that neither of these claimed interests can be considered "legitimate interests" within the meaning of the third condition of Article 30 of the TRIPS Agreement, the Panel concluded that Canada had demonstrated to the Panel's satisfaction that Section 55.2(1) of Canada's Patent Act did not prejudice "legitimate interests" of affected patent owners within the meaning of Article 30.

Having reviewed the conformity of Section 55.2(1) with each of the three conditions for an exception under Article 30 of the TRIPS Agreement, the Panel concluded that

Section 55.2(1) does satisfy all three conditions of Article 30, and thus is not inconsistent with Canada's obligations under Article 28.1 of the TRIPS Agreement. [The Panel concluded that the anti-discrimination rule of Article 27.1 does apply to exceptions of the kind authorized by Article 30.]
We turn, accordingly, to the question of whether Section 55.2(1) of the Canadian Patent Act discriminates as to fields of technology.
....
With regard to the issue of de jure discrimination, the Panel concluded that the European Communities had not presented sufficient evidence to raise the issue in the face of Canada's formal declaration that the exception of Section 55.2(1) was not limited to pharmaceutical products. Absent other evidence, the words of the statute compelled the Panel to accept Canada's assurance that the exception was legally available to every product that was subject to marketing approval requirements. In reaching this conclusion, the Panel took note that its legal finding of conformity on this point was based on a finding as to the meaning of the Canadian law that was in turn based on Canada's representations as to the meaning of that law, and that this finding of conformity would no longer be warranted if, and to the extent that, Canada's representations as to the meaning of that law were to prove wrong.
....
In sum, the Panel found that the evidence in record before it did not raise a plausible claim of discrimination under Article 27.1 of the TRIPS Agreement. It was not proved that the legal scope of Section 55.2(1) was limited to pharmaceutical products, as would normally be required to raise a claim of de jure discrimination. Likewise, it was not proved that the adverse effects of Section 55.2(1) were limited to the pharmaceutical industry, or that the objective indications of purpose demonstrated a purpose to impose disadvantages on pharmaceutical patents in particular, as is often required to raise a claim of de facto discrimination. Having found that the record did not raise any of these basic elements of a discrimination claim, the Panel was able to find that Section 55.2(1) is not inconsistent with Canada's obligations under Article 27.1 of the TRIPS Agreement. Because the record did not present issues requiring any more precise interpretation of the term "discrimination" in Article 27.1, none was made.

VIII. Conclusions

In light of the findings above, the Panel has concluded as follows:
(1) Section 55.2(1) of Canada's Patent Act is not inconsistent with Canada's obligations under Article 27.1 and Article 28.1 of the TRIPS Agreement.
(2) Section 55.2(2) of Canada's Patent Act is not consistent with the requirements of Article 28.1 of the TRIPS Agreement.
Accordingly, the Panel recommends that the Dispute Settlement Body request that Canada bring Section 55.2(2) into conformity with Canada's obligations under the TRIPS Agreement.

Article 70 ***Protection of Existing Subject Matter***

8. Where a Member does not make available as of the date of entry into force of the Agreement Establishing the WTO patent protection for pharmaceutical and agricultural chemical products commensurate with its obligations under Article 27, that Member shall:

(i) notwithstanding the provisions of Part VI above, provide as from the date of entry into force of the Agreement Establishing the WTO a means by which applications for patents for such inventions can be filed;

(ii) apply to these applications, as of the date of application of this Agreement, the criteria for patentability as laid down in this Agreement as if those criteria were being applied on the date of filing in that Member or, where priority is available and claimed, the priority date of the application;

(iii) provide patent protection in accordance with this Agreement as from the grant of the patent and for the remainder of the patent term, counted from the filing date in accordance with Article 33 of this Agreement, for those of these applications that meet the criteria for protection referred to in sub-paragraph (ii) above.

9. Where a product is the subject of a patent application in a Member in accordance with paragraph 8(i) above, exclusive marketing rights shall be granted, notwithstanding the provisions of Part VI above, for a period of five years after obtaining market approval in that Member or until a product patent is granted or rejected in that Member, whichever period is shorter, provided that, subsequent to the entry into force of the Agreement Establishing the WTO, a patent application has been filed and a patent granted for that product in another Member and marketing approval obtained in such other Member.

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. . . .
. . .The dispute that gives rise to this case represents the first time the TRIPS Agreement has been submitted to the scrutiny of the WTO Dispute Settlement system. . . .

IV. The *TRIPS Agreement*

. . . .

. . .With respect to patent protection for pharmaceutical and agricultural chemical products, certain specific obligations are found in Articles 70.8 and 70.9 of the TRIPS Agreement. The interpretation of these specific obligations is the subject of this dispute. Our task is to address the legal issues arising from this dispute that are raised in this appeal.
. . . .

V. Interpretation of the *TRIPS Agreement*

[In seeking to identify the principles of international law to apply, the panel had first referred to the "disciplines formed under GATT 1947 (the so-called GATT *acquis*)" for the principle that the legitimate expectations of the members regarding the conditions of competition must be protected, including, as adapted for the context of the TRIPS Agreement, "the competitive relationship between a Member's own nationals and those of other Members." Although the Appellate Body affirmed the relevance of the GATT *acquis* to the WTO system, the Appellate Body declared that the panel had erred in its interpretation of the GATT *acquis*. In particular, the Appellate Body found that the doctrine of protecting reasonable expectations had developed in the context of nonviolation complaints under the GATT. But this case involved a violation complaint, and thus the panel erred in concluding that the principle of legitimate expectations must be taken into account in interpreting the provisions of TRIPS. The Appellate Body noted that, under Article 64, whether nonviolation complaints should be available for disputes under the TRIPS Agreement remained to be determined by the TRIPS Council pursuant to Article 64(3) of the TRIPS Agreement, and was not a matter to be resolved through interpretation by panels or the Appellate Body.]

In addition to relying on the GATT *acquis*, the Panel relies also on the customary rules of interpretation of public international law as a basis for the interpretative principle it offers for the TRIPS Agreement. Specifically, the Panel relies on Article 31 of the Vienna Convention, which provides in 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.

With this customary rule of interpretation in mind, the Panel stated that:

> In our view, good faith interpretation requires the protection of legitimate expectations derived from the protection of intellectual property rights provided for in the Agreement.

The Panel misunderstands the concept of legitimate expectations in the context of customary rules of interpretation of public international law. The legitimate expectations of the parties to a treaty are reflected in the language of the treaty itself. The duty of a treaty interpreter is to examine the words of the treaty to determine the intentions of the parties. This should be done in accordance with the principles of treaty interpretation set out in Article 31 of the Vienna Convention. But these principles of interpretation neither require nor condone the imputation into a treaty of words that are not there or the importation into a treaty of concepts that were not intended.

In *United States—Standards for Reformulated and Conventional Gasoline*, we set out the proper approach to be applied in interpreting the *WTO Agreement* in accordance with the rules in Article 31 of the *Vienna Convention*. These rules must be respected and applied in interpreting the *TRIPS Agreement* or any other covered agreement. The panel in this case has created its own interpretative principle, which is consistent with neither the customary rules of interpretation of public international law nor established GATT/WTO practice. Both panels and the Appellate

Body must be guided by the rules of treaty interpretation set out in the *Vienna Convention*, and must not add to or diminish rights and obligations provided in the *WTO Agreement*.
This conclusion is dictated by two separate and very specific provisions of the DSU. Article 3.2 of the DSU provides that the dispute settlement system of the WTO:

> . . . serves to preserve the rights and obligations of the Members under the covered agreements, and to clarify the existing provisions of those agreements in accordance with customary rules of interpretation of public international law. Recommendations and rulings of the DSB cannot add to or diminish the rights and obligations provided in the covered agreements.

Furthermore, Article 19.2 of the DSU provides:

> In accordance with paragraph 2 of Article 3, in their findings and recommendations, the panel and Appellate Body cannot add to or diminish the rights and obligations provided in the covered agreements.

These provisions speak for themselves. Unquestionably, both panels and the Appellate Body are bound by them.
For these reasons, we do not agree with the Panel that the legitimate expectations of Members and private rights holders concerning conditions of competition must always be taken into account in interpreting the TRIPS Agreement.

VI. *Article 70.8*

Article 70.8 states:

> Where a Member [as permitted under the grace periods afforded developing countries by Article 65] does not make available as of the date of entry into force of the WTO Agreement patent protection for pharmaceutical and agricultural chemical products commensurate with its obligations under Article 27, that Member shall:
>
> (a) notwithstanding the provisions of Part VI, provide as from the date of entry into force of the WTO Agreement a means by which applications for patents for such inventions can be filed;
>
> (b) apply to these applications, as of the date of application of this Agreement, the criteria for patentability as laid down in this Agreement as if those criteria were being applied on the date of filing in that Member or, where priority is available and claimed, the priority date of the application; and
>
> (c) provide patent protection in accordance with this Agreement as from the grant of the patent and for the remainder of the patent term, counted from the filing date in accordance with Article 33 of this Agreement, for those of these applications that meet the criteria for protection referred to in subparagraph (b).

With respect to Article 70.8(a), the Panel found that:

> . . . Article 70.8(a) requires the Members in question to establish a means that not only appropriately allows for the entitlement to file mailbox applications and the allocation of filing and priority dates to them, but also provides a sound legal basis to preserve novelty and priority as of those dates, 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 India's view, the obligations in Article 70.8(a) are met by a developing country Member where it establishes a mailbox for receiving, dating and storing patent applications for pharmaceutical and agricultural chemical products in a manner that properly allots filing and priority dates to those applications in accordance with paragraphs (b) and (c) of Article 70.8. India asserts that the Panel established an additional obligation "to create legal certainty that the patent applications and the eventual patents based on them will not be rejected or invalidated in the future". This, India argues, is a legal error by the Panel.

The introductory clause to Article 70.8 provides that it applies "[w]here a Member does not make available as of the date of entry into force of the WTO Agreement patent protection for pharmaceutical and agricultural chemical products commensurate with its obligations under Article 27 . . ." of the *TRIPS Agreement*. Article 27 requires that patents be made available "for any inventions, whether products or processes, in all fields of technology", subject to certain exceptions. However, pursuant to paragraphs 1, 2 and 4 of Article 65, a developing country Member may delay providing product patent protection in areas of technology not protectable in its territory on the general date of application of the *TRIPS Agreement* for that Member until 1 January 2005. Article 70.8 relates specifically and exclusively to situations where a Member does not provide, as of 1 January 1995, patent protection for pharmaceutical and agricultural chemical products.

By its terms, Article 70.8(a) applies "notwithstanding the provisions of Part VI" of the *TRIPS Agreement*. Part VI of the *TRIPS Agreement*, consisting of Articles 65, 66 and 67, allows for certain "transitional arrangements" in the application of certain provisions of the *TRIPS Agreement*. These "transitional arrangements," which allow a Member to delay the application of some of the obligations in the *TRIPS Agreement* for certain specified periods, do not apply to Article 70.8. Thus, although there are "transitional arrangements" which allow developing country Members, in particular, more time to implement certain of their obligations under the *TRIPS Agreement*, no such "transitional arrangements" exist for the obligations in Article 70.8.

Article 70.8(a) imposes an obligation on Members to provide "a means" by which mailbox applications can be filed "from the date of entry into force of the WTO Agreement." Thus, this obligation has been in force since 1 January 1995. The issue before us in this appeal is not whether this obligation exists or whether this obligation is now in force. Clearly, it exists, and, equally clearly, it is in force now. The issue before us in this appeal is: what precisely is the "means" for filing mailbox applications that is contemplated and required by Article 70.8(a)? To answer this question, we must interpret the terms of Article 70.8(a).

We agree with the Panel that "[t]he analysis of the ordinary meaning of these terms alone does not lead to a definitive interpretation as to what sort of 'means' is required by this subparagraph." Therefore, in accordance with the general rules of treaty interpretation set out in Article 31 of the *Vienna Convention*, to discern the meaning of the terms in Article 70.8(a), we must also read this provision in its context, and in light of the object and purpose of the *TRIPS Agreement*.

Paragraphs (b) and (c) of Article 70.8 constitute part of the context for interpreting Article 70.8(a). Paragraphs (b) and (c) of Article 70.8 require that the "means" provided by a Member under Article 70.8(a) must allow the filing of applications for patents for pharmaceutical and agricultural chemical products from 1 January 1995 and preserve the dates of filing and priority of those applications, so that the criteria for patentability may be applied as of those dates, and so that the patent protection eventually granted is dated back to the filing date. In this respect, we agree with the Panel that,

> . . . in order to prevent the loss of the novelty of an invention . . . filing and priority dates need to have a sound legal basis if the provisions of Article 70.8 are to fulfil their purpose. Moreover, if available, a filing must entitle the applicant to claim priority on the basis of an earlier filing in respect of the claimed invention over applications with subsequent filing or priority dates. Without legally sound filing and priority dates, the mechanism to be established on the basis of Article 70.8 will be rendered inoperational.

On this, the Panel is clearly correct. The Panel's interpretation here is consistent also with the object and purpose of the *TRIPS Agreement*. The Agreement takes into account, *inter alia*, "the need to promote effective and adequate protection of intellectual property rights." We believe the Panel was correct in finding that the "means" that the Member concerned is obliged to provide under Article 70.8(a) must allow for "the entitlement to file mailbox applications and the allocation of filing and priority dates to them." Furthermore, the Panel was correct in finding that the "means" established under Article 70.8(a) must also provide "a sound legal basis to preserve novelty and priority as of those dates." These findings flow inescapably from the necessary operation of paragraphs (b) and (c) of Article 70.8.

However, we 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." India is *entitled*, by the "transitional arrangements" in paragraphs 1, 2 and 4 of Article 65, to delay application of Article 27 for patents for pharmaceutical and agricultural chemical products until 1 January 2005. 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.

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.

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 to preserve the novelty of the inventions and the priority of the applications as of the

relevant filing and priority dates consistent with Article 70.8(a) of the *TRIPS Agreement*. According to India, pursuant to these "administrative instructions," the Patent Office has been directed to store applications for patents for pharmaceutical and agricultural chemical products separately for future action pursuant to Article 70.8, and the Controller General of Patents Designs and Trademarks ("the Controller") has been instructed not to refer them to an examiner until 1 January 2005. According to India, these "administrative instructions "are legally valid in Indian law, as they are reflected in the Minister's Statement to Parliament of 2 August 1996. And, according to India:

> There is . . . *absolute certainty* that India can, when patents are due in accordance with subparagraphs (b) and (c) of Article 70.8, decide to grant such patents on the basis of the applications currently submitted and determine the novelty and priority of the inventions in accordance with the date of these applications. (emphasis added)

India has not provided any text of these "administrative instructions" either to the Panel or to us.

Whatever their substance or their import, these "administrative instructions" were not the initial "means" chosen by the Government of India to meet India's obligations under Article 70.8(a) of the *TRIPS Agreement*. The Government of India's initial preference for establishing a "means" for filing mailbox applications under Article 70.8(a) was the Patents (Amendment) Ordinance (the "Ordinance"), promulgated by the President of India on 31 December 1994 pursuant to Article 123 of India's Constitution. Article 123 enables the President to promulgate an ordinance when Parliament is not in session, and when the President is satisfied "that circumstances exist which render it necessary for him to take immediate action." India notified the Ordinance to the Council for TRIPS, pursuant to Article 63.2 of the *TRIPS Agreement*, on 6 March 1995. In accordance with the terms of Article 123 of India's Constitution, the Ordinance expired on 26 March 1995, six weeks after the reassembly of Parliament. This was followed by an unsuccessful effort to enact the Patents (Amendment) Bill 1995 to implement the contents of the Ordinance on a permanent basis. This Bill was introduced in the Lok Sabha (Lower House) in March 1995. After being passed by the Lok Sabha, it was referred to a Select Committee of the Rajya Sabha (Upper House) for examination and report. However, the Bill was subsequently not enacted due to the dissolution of Parliament on 10 May 1996. From these actions, it is apparent that the Government of India initially considered the enactment of amending legislation to be necessary in order to implement its obligations under Article 70.8(a). However, India maintains that the "administrative instructions" issued in April 1995 effectively continued the mailbox system established by the Ordinance, thus obviating the need for a formal amendment to the Patents Act or for a new notification to the Council for TRIPS.

With respect to India's "administrative instructions," the Panel found that "the current administrative practice creates a certain degree of legal insecurity in that it requires Indian officials to ignore certain mandatory provisions of the Patents Act"; and that "even if Patent Office officials do not examine and reject mailbox applications, a competitor might seek a judicial order to do so in order to obtain rejection of a patent claim."

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.

In public international law, an international tribunal may treat municipal law in several ways.[2] 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. For example, in *Certain German Interests in Polish Upper Silesia*, the Permanent Court of International Justice observed:

> It might be asked whether a difficulty does not arise from the fact that the Court would have to deal with the Polish law of July 14th, 1920. This, however, does not appear to be the case. From the standpoint of International Law and of the Court which is its organ, municipal laws are merely facts which express the will and constitute the activities of States, in the same manner as do legal decisions and administrative measures. *The Court is certainly not called upon to interpret the Polish law as such; but there is nothing to prevent the Court's giving judgment on the question whether or not, in applying that law, Poland is acting in conformity with its obligations towards Germany under the Geneva Convention.*[3] (emphasis added)

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.

Previous GATT/WTO panels also have conducted a detailed examination of the domestic law of a Member in assessing the conformity of that domestic law with the relevant GATT/WTO obligations. For example, in *United States—Section 337 of the Tariff Act of 1930*, the panel conducted a detailed examination of the relevant United States legislation and practice, including the remedies available under Section 337 as well as the differences between patent-based Section 337 proceedings and federal district court proceedings, in order to determine whether Section 337 was inconsistent with Article III:4 of the GATT 1947. This seems to us to be a comparable case.

And, just as it was necessary for the Panel in this case to seek a detailed understanding of the operation of the Patents Act as it relates to the "administrative instructions" in order to assess whether India had complied with Article 70.8(a), so, too, is it necessary for us in this appeal to review the Panel's examination of the same Indian domestic law.

To do so, we must look at the specific provisions of the Patents Act. Section 5(a) of the Patents Act provides that substances "intended for use, or capable of being used, as food or as medicine or drug"are not patentable. "When the complete specification has been led in respect of an application for a patent", section 12(1) *requires* the Controller to refer that application and that specification to an examiner. Moreover, section 15(2) of the Patents Act states that the Controller "shall refuse" an application in respect of a substance that is not patentable. We agree with the

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[2] *See*, for example, I. Brownlie, Principles of Public International Law, 4th ed. (Clarendon Press, 1990), pp. 40-42.

[3] [1926], PCIJ Rep., Series A, No. 7, p. 19.

Panel that these provisions of the Patents Act are mandatory. And, like the Panel, we are not persuaded that India's "administrative instructions" would prevail over the contradictory mandatory provisions of the Patents Act. We note also that, in issuing these "administrative instructions," the Government of India did not avail itself of the provisions of section 159 of the Patents Act, which allows the Central Government "to make rules for carrying out the provisions of [the] Act" or section 160 of the Patents Act, which requires that such rules be laid before each House of the Indian Parliament. We are told by India that such rule-making was not required for the "administrative instructions" at issue here. But this, too, seems to be inconsistent with the mandatory provisions of the Patents Act.

We are not persuaded by India's explanation of these 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.

For these reasons, we agree with the Panel's conclusion that India's "administrative instructions" for receiving mailbox applications are inconsistent with Article 70.8(a) of the *TRIPS Agreement*. . . .

CLASS 9, Modifying the TRIPS Agreement for Access to Medicines

J.H. REICHMAN, UNIVERSAL MINIMUM STANDARDS
OF INTELLECTUAL PROPERTY PROTECTION UNDER
THE TRIPS COMPONENT OF THE WTO AGREEMENT
29 Int. Lawyer 345, 351-58 (1995)

In the course of multilateral negotiations to revise the Paris Convention that preceded the Uruguay Round, the developed countries sought to elevate its rudimentary standards concerning patentable inventions while the developing countries demanded preferential measures that would have weakened even the preexisting obligations that states owed foreign inventors under their domestic laws. The TRIPS Agreement breaks this impasse and fills many of the gaps in the international patent system with uniform minimum standards of protection that reflect the practices of the developed countries. The TRIPS Agreement also establishes new rules governing permissible limitations on the foreign patentee's scope of protection, and these rules reflect compromise efforts by both sides to balance private and public interests.

1. Normative Structure

The developed countries scored major achievements in elevating and harmonizing minimum standards of patent protection, especially with regard to basic criteria of eligibility and duration, which the Paris Convention had not addressed. The following provisions are noteworthy:
(1) Member states may not exclude any field of technology from patentability as a whole, and they may not discriminate as to the place of invention when rights are granted.
(2) The domestic patent laws (including that of the United States) must provide a uniform term of twenty years of protection from the filing date, such protection must depend on uniform conditions of eligibility, and specified exclusive rights must be granted.
(3) The patentee s bundle of exclusive rights must include the right to supply the market with imports of the patented products.
(4) Logically, the obligation to work patents locally under article 5A of the Paris Convention appears overridden by the right to supply imports, at least in principle.
These achievements build on standards previously established by the Paris Convention, such as the rights of priority, which even WTO members who do not adhere to this Convention must now respect. Single countries may deviate from these universal patent-law standards only to the extent that they benefit from longer or shorter periods of transitional relief, which vary with the beneficiary's status as either a developing country or a least-developed country (LDC).
For example, developing countries may postpone implementing most of the required standards for a period of at least five years, and even ten years with respect to fields of technology previously excluded under their domestic patent laws. LDCs obtain a reprieve for ten years, while a showing of hardship may qualify

them for further delays and other concessions. Nevertheless, a pipeline provision, clarified at the last minute, safeguards existing pharmaceutical and agrochemical patents, which, if otherwise eligible, must obtain at least five years of exclusive marketing rights even in those developing countries that did not previously grant patents in these fields.

Because inventors in developed countries are eventually entitled to obtain and enforce patents everywhere, competitive pressures in developing countries ought to shift from subject matter exclusions of patentability to scope of protection issues bearing on single patents, as occurs in developed countries. Firms in developing countries may thus exploit disclosed information in order to work around the claimed inventions as well as any unpatented know-how they fairly obtain, whether disclosed or not. The lack of international standards defining the doctrine of equivalents affords additional room in which to maneuver. Arguably, states may also apply a broad experimental use exception so long as the rights holders are notified.

The extent to which developing countries will themselves benefit from stronger patent systems as distinct from compensatory market access depends in part on the willingness of firms in developed countries either to increase direct investments in developing countries or to license more of their advanced technology to local firms. Moreover, familiarization with the benefits of the patent system could stimulate greater investment in domestic research and development and should encourage the private sector to develop its own intellectual property. Nevertheless, the value of a patent system to developing countries remains controversial, and single developing countries could suffer hardship because of a growing dependence on foreign patents with few countervailing benefits. In such a case, one must acknowledge the achievements of the developing-country negotiators, who have built numerous safeguards and escape hatches into the TRIPS Agreement.

2. Limits of the Patentee's Exclusive Rights.

Article 30 of the TRIPS Agreement declares that states should tolerate only limited exceptions to the exclusive rights that article 28 confers. But other articles permit exceptions to the exclusive rights when needed to protect public health and nutrition, and to promote the public interest in sectors of vital importance to economic development; to prevent abuse of intellectual property rights, including the imposition of unreasonable commercial terms; and to counteract unreasonable trade restraints and practices that adversely affect the international transfer of technology. Governments may also attempt to invoke language in article 7 that envisions the effective transfer and dissemination of technology among member countries and the maintenance of social and economic welfare as further grounds for regulatory action limiting grants of exclusive rights in appropriate circumstances. These and other articles thus preserve, and may even expand, preexisting grounds for limiting a patentee's exclusive rights under article 5A of the Paris Convention, which some developed-country delegations had hoped to abrogate.

a. Compulsory Licenses in General.

The standard form of remedial action remains compulsory licensing, as it was under article 5A of the Paris Convention, subject to important refinements and conditions that article 31 of the TRIPS Agreement attempts to introduce. In principle, both the public-interest exception and measures to prevent abuse, respectively stipulated in articles 8(1) and 8(2) of the TRIPS Agreement, could justify resort to compulsory licensing. In the past, however, arguments about the meaning of abuse engendered considerable controversy. A few developed countries, notably the United States, limited the concept to anticompetitive practices bordering on antitrust violations. Most other countries and a leading commentator considered the doctrine of abuse applicable if a patentee fails to work the patent locally in due course or refuses to grant licenses on reasonable terms and thereby hampers industrial development, or does not supply the national market with sufficient quantities of the patented product, or demands excessive prices for such products.

The TRIPS Agreement merges this broader concept of abuse with the public-interest exception for purposes of compulsory licensing under article 31. However, considerable effort has been made to discredit the nonworking of foreign patents locally as a sufficient basis for triggering such licenses. The TRIPS Agreement then subjects all nonexclusive compulsory licenses sounding in any of the bases established by articles 8(1) and 8(2) to the conditions of article 31.

So long as the grounds for triggering a nonexclusive compulsory license are rooted in the broad notion of abuse under article 8(1), say, because of public-interest considerations or because the patentee refused to authorize the desired use on reasonable commercial terms and conditions, article 31 requires the would-be licensee to seek a negotiated license from the right holder, and failing this, to pay equitable compensation. The victorious licensee could not normally export the products resulting from use of the patent under such a compulsory license. Nor could the licensee exclude the foreign patentee from subsequently working the patent locally in direct competition with the former once the latter had rectified any grievances that might have justified issuance of a compulsory license in the first place.

In contrast, a complainant who seeks a compulsory license under article 8(2) to rectify abuse of a patent in the narrow, technical sense familiar from United States law will remain exempt from both the duty to negotiate and restrictions on exports, provided that some judicial or administrative authority deems the patentee's conduct anticompetitive. In such a case, the need to correct anticompetitive practices may be taken into account in determining the amount of remuneration the patentee will receive.

The sole exception to the compulsory licensing scheme available under article 31 is for patented semi-conductor technology. Article 31(c), as revised at the last minute, now limits the granting of compulsory licenses for other use of such technology to instances of public non commercial use or to situations in which the compulsory license obviates judicially determined anticompetitive practices. Whether unpatented semiconductor layout designs subject to integrated circuit laws are also immunized from compulsory licenses for other use remains to be clarified, as

discussed below. In any event, these provisions make it harder for interested parties in developing countries to start up local semiconductor industries by persuading their governments to seize foreign semiconductor technologies in the name of overriding public interest.
On balance, Article 31 helps to insulate foreign patentees from confiscatory practices that earlier proposals to reform Article 5A of the Paris Convention appeared to tolerate, while it affords the developing countries broad grounds for curbing conduct that seriously compromises their national development strategies. Apart from semiconductor technologies, the requirement that would- be compulsory licensees negotiate seriously with rights holders to obtain exclusive licenses on reasonable terms should increase the pressure on foreign patentees to accommodate pricing and other strategies to local market conditions. This, in turn, should lessen the need for governments to seek compulsory licensing in the first instance.

b. New Dimensions of the Public-Interest Exception.

Beyond traditional notions of public interest and abuse, the TRIPS Agreement introduces new and more expansive concepts whose outer limits have yet to be delineated at the international level. In particular, article 7 stresses the promotion of technological innovation and...the transfer and dissemination of technology . . . in a manner conducive to social and economic welfare. Article 8(1) expands potential public-interest exceptions to sectors other than public health and nutrition that are of vital importance to... socio-economic and technological development, and article 8(2) seeks to ensure the international transfer of technology. In addition, article 66 underscores the LDCs' need for flexibility to create a viable technological base, and it must be read in conjunction with the other provisions favoring this group of countries.
All these provisions arm developing and least-developed countries with legal grounds for maintaining a considerable degree of domestic control over intellectual property policies in a post TRIPS environment, including the imposition of compulsory licenses within article 31 of the TRIPS Agreement and article 5A of the Paris Convention. While the meaning of any particular clause must emerge from evolving state practice, taken together they clearly sanction public-interest exceptions of importance to the developing countries while rejecting the more extreme measures these countries proposed during the Paris Revision process. Eventually, specific public-interest safeguards essential to national economic development will have to be worked out on a case-by case basis, in order to deal with particular complaints about the socially harmful effects of technological dependency that are not offset by enhanced market access, and the resulting compromises are likely to give both sides less than they want.

TRIPS AGREEMENT

Article 31 ***Other Use Without Authorization of the Right Holder***

Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

(a) authorization of such use shall be considered on its individual merits;

(b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;

(c) the scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive.

(d) such use shall be non-exclusive;

(e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;

(f) any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;

(g) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;

(h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;

(i) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

(j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

(k) Members are not obliged to apply the conditions set forth in sub- paragraphs (b) and (f) above where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;

(l) where such use is authorized to permit the exploitation of a patent (the second patent) which cannot be exploited without infringing another patent (the first patent), the following additional conditions shall apply:

(i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;

(ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and

(iii) the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent.

Article 32 ***Revocation/Forfeiture***

An opportunity for judicial review of any decision to revoke or forfeit a patent shall be available.

Article 33 ***Term of Protection***

The term of protection available shall not end before the expiration of a period of twenty years counted from the filing date.

SECTION 8: CONTROL OF ANTI-COMPETITIVE PRACTICES IN CONTRACTUAL LICENCES Article 40

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

2. Nothing in this Agreement shall prevent Members from specifying in their national legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.

3. Each Member shall enter, upon request, into consultations with any other Member which has cause to believe that an intellectual property right owner that is a national or domiciliary of the Member to which the request for consultations has been addressed is undertaking practices in violation of the requesting Member's laws and regulations on the subject matter of this Section, and which wishes to secure compliance with such legislation,

without prejudice to any action under the law and to the full freedom of an ultimate decision of either Member. The Member addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting Member, and shall co-operate through supply of publicly available non-confidential information of relevance to the matter in question and of other information available to the Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member.

4. A Member whose nationals or domiciliaries are subject to proceedings in another Member concerning alleged violation of that other Member's laws and regulations on the subject matter of this Section shall, upon request, be granted an opportunity for consultations by the other Member under the same conditions as those foreseen in paragraph 3 above.

THE TRIPS AGREEMENT AND PUBLIC HEALTH

The Doha Declaration on Health and Its Implementation at Cancun

At the Doha Fourth Ministerial Conference held in November, 2001, the developing nation members of the WTO succeeded in placing the issue of access to medicines on the TRIPS agenda. Of particular concern was the impact of Article 31(f) TRIPS on least developed countries lacking the capacity to produce medicines (particularly retroviral AIDS drugs) under any sort of compulsory license, and the prohibition against countries capable of producing such under compulsory license to export, and the provisions for compensation of Article 31(h) TRIPS. The United States, alone among developed countries, adamantly refused to reopen the TRIPS Agreement for amendment of these provisions in the negotiations leading up to the 5th Ministerial Conference at Cancun in August, 2003. In an effort to refocus the Cancun Agenda to the question of agricultural subsidies (primarily in the European Union and Japan) in the days leading up to the conference, the United States relented and agreed to engage in negotiations toward such an amendment. The Doha Declaration on the TRIPS Agreement on Public Health and the Cancun Agreement on Implementation of Paragraph 6 are set forth below.

WORLD TRADE ORGANIZATION
Doha, 9 - 14 November 2001
MINISTERIAL DECLARATION
Adopted on 14 November 2001

...

TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS

17. We stress the importance we attach to implementation and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) in a manner supportive of public health, by promoting both access to existing medicines and research and development into new medicines and, in this connection, are adopting a separate Declaration.

18. With a view to completing the work started in the Council for Trade-Related Aspects of Intellectual Property Rights (Council for TRIPS) on the implementation of Article 23.4, we agree to negotiate the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits by the Fifth Session of the Ministerial Conference. We note that issues related to the extension of the protection of geographical indications provided for in Article 23 to products other than wines and spirits will be addressed in the Council for TRIPS pursuant to paragraph 12 of this Declaration.

19. We instruct 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.

Declaration on the TRIPS agreement and public health

WT/MIN(01)/DEC/2

Adopted at Doha, Qatar on 14 November 2001

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.

4. We agree that the TRIPS Agreement does not and should not prevent members from taking measures to protect public health. Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the Agreement can and should

be interpreted and implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all.

In this connection, we reaffirm the right of WTO members to use, to the full, the provisions in the TRIPS Agreement, which provide flexibility for this purpose.

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

1. In applying the customary rules of interpretation of public international law, each provision of the TRIPS Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles.
2. Each member has the right to grant compulsory licences and the freedom to determine the grounds upon which such licences are granted.
3. Each member has the right to determine what constitutes a national emergency or other circumstances of extreme urgency, it being understood that public health crises, including those relating to HIV/AIDS, tuberculosis, malaria and other epidemics, can represent a national emergency or other circumstances of extreme urgency.
4. 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.

6. We recognize that WTO members with insufficient or no manufacturing capacities in the pharmaceutical sector could face difficulties in making effective use of compulsory licensing under the TRIPS Agreement. We instruct the Council for TRIPS to find an expeditious solution to this problem and to report to the General Council before the end of 2002.

7. We reaffirm the commitment of developed-country members to provide incentives to their enterprises and institutions to promote and encourage technology transfer to least-developed country members pursuant to Article 66.2. We also agree that the least-developed country members will not be obliged, with respect to pharmaceutical products, to implement or apply Sections 5 and 7 of Part II of the TRIPS Agreement or to enforce rights provided for under these Sections until 1 January 2016, without prejudice to the right of least-developed country members to seek other extensions of the transition periods as provided for in Article 66.1 of the TRIPS Agreement. We instruct the Council for TRIPS to take the necessary action to give effect to this pursuant to Article 66.1 of the TRIPS Agreement. Article 6 of the 2001 Doha Declaration and Its Implementation at the 2003 Cancun Ministerial Conference

Implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement and public health

TRIPS: COUNCIL FOR TRIPS

Decision of 30 August 2003 at Cancun, Mexico

WT/L/540

Implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement and public health

The General Council,

Having regard to paragraphs 1, 3 and 4 of Article IX of the Marrakesh Agreement Establishing the World Trade Organization ("the WTO Agreement");

Conducting the functions of the Ministerial Conference in the interval between meetings pursuant to paragraph 2 of Article IV of the WTO Agreement;

Noting the Declaration on the TRIPS Agreement and Public Health (the "Declaration") and, in particular, the instruction of the Ministerial Conference to the Council for TRIPS contained in paragraph 6 of the Declaration to find an expeditious solution to the problem of the difficulties that WTO Members with insufficient or no manufacturing capacities in the pharmaceutical sector could face in making effective use of compulsory licensing under the TRIPS Agreement and to report to the General Council before the end of 2002;

Recognizing, where eligible importing Members seek to obtain supplies under the system set out in this Decision, the importance of a rapid response to those needs consistent with the provisions of this Decision;

Noting that, in the light of the foregoing, exceptional circumstances exist justifying waivers from the obligations set out in paragraphs (f) and (h) of Article 31 of the TRIPS Agreement with respect to pharmaceutical products;

Decides as follows:

1. For the purposes of this Decision:

(a) "pharmaceutical product" means any patented product, or product manufactured through a patented process, of the pharmaceutical sector needed to address the public health problems as recognized in paragraph 1 of the Declaration. It is understood that active ingredients necessary for its manufacture and diagnostic kits needed for its use would be included(*1);

(b) "eligible importing Member" means any least-developed country Member, and any other Member that has made a notification (*2) to the Council for TRIPS of its intention to use the system as an importer, it being understood that a Member may notify at any time that it will use the system in whole or in a limited way, for example only in the case of a national emergency or other circumstances of extreme

urgency or in cases of public non-commercial use. It is noted that some Members will not use the system set out in this Decision as importing Members (*3) and that some other Members have stated that, if they use the system, it would be in no more than situations of national emergency or other circumstances of extreme urgency;

(c) "exporting Member" means a Member using the system set out in this Decision to produce pharmaceutical products for, and export them to, an eligible importing Member.

2. The obligations of an exporting Member under Article 31(f) of the TRIPS Agreement shall be waived with respect to the grant by it of a compulsory licence to the extent necessary for the purposes of production of a pharmaceutical product(s) and its export to an eligible importing Member(s) in accordance with the terms set out below in this paragraph:

(a) the eligible importing Member(s) (*4) has made a notification (*2) to the Council for TRIPS, that:

(i) specifies the names and expected quantities of the product(s) needed(*5);

(ii) confirms that the eligible importing Member in question, other than a least developed country Member, has established that it has insufficient or no manufacturing capacities in the pharmaceutical sector for the product(s) in question in one of the ways set out in the Annex to this Decision (*6); and

(iii) confirms that, where a pharmaceutical product is patented in its territory, it has granted or intends to grant a compulsory licence in accordance with Article 31 of the TRIPS Agreement and the provisions of this Decision;

(b) the compulsory licence issued by the exporting Member under this Decision shall contain the following conditions:

(i) only the amount necessary to meet the needs of the eligible importing Member(s) may be manufactured under the licence and the entirety of this production shall be exported to the Member(s) which has notified its needs to the Council for TRIPS;

(ii) products produced under the licence shall be clearly identified as being produced under the system set out in this Decision through specific labelling or marking. Suppliers should distinguish such products through special packaging and/or special colouring/shaping of the products themselves, provided that such distinction is feasible and does not have a significant impact on price; and

(iii) before shipment begins, the licensee shall post on a website (*7) the following information:

- the quantities being supplied to each destination as referred to in indent (i) above; and - the distinguishing features of the product(s) referred to in indent (ii) above;

(c) the exporting Member shall notify (*8) the Council for TRIPS of the grant of the licence, including the conditions attached to it. (*9) The information provided shall include the name and address of the licensee, the product(s) for which the licence has been granted, the quantity(ies) for which it has been granted, the country(ies) to which the product(s) is (are) to be supplied and the duration of the licence. The notification shall also indicate the address of the website referred to in subparagraph (b)(iii) above.

3. Where a compulsory licence is granted by an exporting Member under the system set out in this Decision, adequate remuneration pursuant to Article 31(h) of the TRIPS Agreement shall be paid in that Member taking into account the economic value to the importing Member of the use that
has been authorized in the exporting Member. Where a compulsory licence is granted for the same products in the eligible importing Member, the obligation of that Member under Article 31(h) shall be waived in respect of those products for which remuneration in accordance with the first sentence of this paragraph is paid in the exporting Member.

4. In order to ensure that the products imported under the system set out in this Decision are used for the public health purposes underlying their importation, eligible importing Members shall take reasonable measures within their means, proportionate to their administrative capacities and to the risk of trade diversion to prevent re-exportation of the products that have actually been imported into their territories under the system. In the event that an eligible importing Member that is a developing country Member or a least-developed country Member experiences difficulty in implementing this provision, developed country Members shall provide, on request and on mutually agreed terms and conditions, technical and financial cooperation in order to facilitate
its implementation.

5. Members shall ensure the availability of effective legal means to prevent the importation into, and sale in, their territories of products produced under the system set out in this Decision and diverted to their markets inconsistently with its provisions, using the means already required to be available under the TRIPS Agreement. If any Member considers that such measures are proving insufficient for this purpose, the matter may be reviewed in the Council for TRIPS at the request of that Member.

6. With a view to harnessing economies of scale for the purposes of enhancing purchasing power for, and facilitating the local production of, pharmaceutical products:
(i) where a developing or least-developed country WTO Member is a party to a regional trade agreement within the meaning of Article XXIV of the GATT 1994 and the Decision of 28 November 1979 on Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries (L/4903), at least half of the current membership of which is made up of countries presently on the United Nations list of least developed countries, the obligation of that Member under Article 31(f) of the TRIPS Agreement shall be waived to the extent necessary to enable a pharmaceutical product produced or imported under a compulsory licence in that Member to be exported to the markets of those other developing or least developed country parties to the regional trade agreement that share the health problem in question. It is understood that this will not prejudice the territorial nature of the patent rights in question;

(ii) it is recognized that the development of systems providing for the grant of regional patents to be applicable in the above Members should be promoted. To this end, developed country Members undertake to provide technical cooperation in accordance with Article 67 of the TRIPS Agreement, including in conjunction with other relevant intergovernmental organizations.

7. Members recognize the desirability of promoting the transfer of technology and capacity building in the pharmaceutical sector in order to overcome the problem identified in paragraph 6 of the Declaration. To this end, eligible importing Members and exporting Members are encouraged to use the system set out in this Decision in a way which would promote this objective. Members undertake to cooperate in paying special attention to the transfer of technology and capacity building in the pharmaceutical sector in the work to be undertaken pursuant to Article 66.2 of the TRIPS Agreement, paragraph 7 of the Declaration and any other relevant work of the Council for TRIPS.

8. The Council for TRIPS shall review annually the functioning of the system set out in this Decision with a view to ensuring its effective operation and shall annually report on its operation to the General Council. This review shall be deemed to fulfil the review requirements of Article IX:4 of the WTO Agreement.

9. This Decision is without prejudice to the rights, obligations and flexibilities that Members have under the provisions of the TRIPS Agreement other than paragraphs (f) and (h) of Article 31, including those reaffirmed by the Declaration, and to their interpretation. It is also without prejudice to the extent to which pharmaceutical products produced under a compulsory licence can be exported under the present provisions of Article 31(f) of the TRIPS Agreement.

10. Members shall not challenge any measures taken in conformity with the provisions of the waivers contained in this Decision under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994.

11. This Decision, including the waivers granted in it, shall terminate for each Member on the date on which an amendment to the TRIPS Agreement replacing its provisions takes effect for that Member. The TRIPS Council shall initiate by the end of 2003 work on the preparation of such an amendment with a view to its adoption within six months, on the understanding that the amendment will be based, where appropriate, on this Decision and on the further understanding that it will not be part of the negotiations referred to in paragraph 45 of the Doha Ministerial Declaration (WT/MIN(01)/DEC/1)

ANNEX Assessment of Manufacturing Capacities in the Pharmaceutical Sector

Least-developed country Members are deemed to have insufficient or no manufacturing capacities in the pharmaceutical sector.

For other eligible importing Members insufficient or no manufacturing capacities for the product(s) in question may be established in either of the following ways:

(i) the Member in question has established that it has no manufacturing capacity in the pharmaceutical sector; OR

(ii) where the Member has some manufacturing capacity in this sector, it has examined this capacity and found that, excluding any capacity owned or controlled by the patent owner, it is currently insufficient for the purposes of meeting its needs. When it is established that such capacity has become sufficient to meet the Member's needs, the system shall no longer apply.

Notes to the Declaration:

1. This subparagraph is without prejudice to subparagraph 1(b).

2. It is understood that this notification does not need to be approved by a WTO body in order to use the system set out in this Decision.

3. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States of America.

4. Joint notifications providing the information required under this subparagraph may be made by the regional organizations referred to in paragraph 6 of this Decision on behalf of eligible importing Members using the system that are parties to them, with the agreement of those parties.

5. The notification will be made available publicly by the WTO Secretariat through a page on the WTO website dedicated to this Decision.

6. This subparagraph is without prejudice to Article 66.1 of the TRIPS Agreement.

7. The licensee may use for this purpose its own website or, with the assistance of the WTO Secretariat, the page on the WTO website dedicated to this Decision.

8. It is understood that this notification does not need to be approved by a WTO body in order to use the system set out in this Decision.

9. The notification will be made available publicly by the WTO Secretariat through a page on the WTO website dedicated to this Decision.

WORLD TRADE

ORGANIZATION

IP/C/41

6 December 2005

(05-5806)

Council for Trade-Related Aspects

of Intellectual Property Rights

IMPLEMENTATION OF PARAGRAPH 11 OF THE GENERAL COUNCIL DECISION OF 30 AUGUST 2003 ON THE IMPLEMENTATION OF PARAGRAPH 6 OF THE DOHA DECLARATION ON THE TRIPS AGREEMENT AND PUBLIC HEALTH

Proposal for a Decision on an Amendment to the TRIPS Agreement

At its meeting of 6 December 2005, the Council for TRIPS decided to submit, in accordance with paragraph 1 of Article X of the Marrakesh Agreement Establishing the World Trade Organization, the attached proposal for a decision on an amendment to the Agreement on Trade-Related Aspects of Intellectual Property Rights.

WORLD TRADE

ORGANIZATION

(05-0000)

General Council

AMENDMENT OF THE TRIPS AGREEMENT

Draft Decision of [date]

The General Council;

Having regard to paragraph 1 of Article X of the Marrakesh Agreement Establishing the World Trade Organization ("the WTO Agreement");

Conducting the functions of the Ministerial Conference in the interval between meetings pursuant to paragraph 2 of Article IV of the WTO Agreement;

Noting the Declaration on the TRIPS Agreement and Public Health (WT/MIN(01)/DEC/2) and, in particular, the instruction of the Ministerial Conference to the Council for TRIPS contained in paragraph 6 of the Declaration to find an expeditious solution to the problem of the difficulties that WTO Members with insufficient or no manufacturing capacities in the pharmaceutical sector could face in making effective use of compulsory licensing under the TRIPS Agreement;

Recognizing, where eligible importing Members seek to obtain supplies under the system set out in the proposed amendment of the TRIPS Agreement, the importance of a rapid response to those needs consistent with the provisions of the proposed amendment of the TRIPS Agreement;

Recalling paragraph 11 of the General Council Decision of 30 August 2003 on the Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health;

Having considered the proposal to amend the TRIPS Agreement submitted by the Council for TRIPS (IP/C/41);

Noting the consensus to submit this proposed amendment to the Members for acceptance;

Decides as follows:

1. The Protocol amending the TRIPS Agreement attached to this Decision is hereby adopted and submitted to the Members for acceptance.

2. The Protocol shall be open for acceptance by Members until 1 December 2007 or such later date as may be decided by the Ministerial Conference.

3. The Protocol shall take effect in accordance with the provisions of paragraph 3 of Article X of the WTO Agreement.

_____

ATTACHMENT
PROTOCOL AMENDING THE TRIPS AGREEMENT

Members of the World Trade Organization;

Having regard to the Decision of the General Council in document WT/L/■, adopted pursuant to paragraph 1 of Article X of the Marrakesh Agreement Establishing the World Trade Organization ("the WTO Agreement");

Hereby agree as follows:

The Agreement on Trade-Related Aspects of Intellectual Property Rights (the "TRIPS Agreement") shall, upon the entry into force of the Protocol pursuant to paragraph 4, be amended as set out in the Annex to this Protocol, by inserting Article 31*bis* after Article 31 and by inserting the Annex to the TRIPS Agreement after Article 73.

Reservations may not be entered in respect of any of the provisions of this Protocol without the consent of the other Members.

This Protocol shall be open for acceptance by Members until 1 December 2007 or such later date as may be decided by the Ministerial Conference [now extended to Dec. 2009]

This Protocol shall enter into force in accordance with paragraph 3 of Article X of the WTO Agreement.

This Protocol shall be deposited with the Director-General of the World Trade Organization who shall promptly furnish to each Member a certified copy thereof and a notification of each acceptance thereof pursuant to paragraph 3.

This Protocol shall be registered in accordance with the provisions of Article 102 of the Charter of the United Nations.

Done at Geneva this [date], in a single copy in the English, French and Spanish languages, each text being authentic.

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ANNEX TO THE PROTOCOL AMENDING THE TRIPS AGREEMENT

*Article 31*bis

1. The obligations of an exporting Member under Article 31(f) shall not apply with respect to the grant by it of a compulsory licence to the extent necessary for the purposes of production of a pharmaceutical product(s) and its export to an eligible importing Member(s) in accordance with the terms set out in paragraph 2 of the Annex to this Agreement.

2. Where a compulsory licence is granted by an exporting Member under the system set out in this Article and the Annex to this Agreement, adequate remuneration pursuant to Article 31(h) shall be paid in that Member taking into account the economic value to the importing Member of the use that has been authorized in the exporting Member. Where a compulsory licence is granted for the same products in the eligible importing Member, the obligation of that Member under Article 31(h) shall not apply in respect of those products for which remuneration in accordance with the first sentence of this paragraph is paid in the exporting Member.

3. With a view to harnessing economies of scale for the purposes of enhancing purchasing power for, and facilitating the local production of, pharmaceutical products: where a developing or least-developed country WTO Member is a party to a regional trade agreement within the meaning of Article XXIV of the GATT 1994 and the Decision of 28 November 1979 on Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries (L/4903), at least half of the current membership of which is made up of countries presently on the United Nations list of least-developed countries, the obligation of that Member under Article 31(f) shall not apply to the extent necessary to enable a pharmaceutical product produced or imported under a compulsory licence in that Member to be exported to the markets of those other developing or least-developed country parties to the regional trade agreement that share the health problem in question. It is understood that this will not prejudice the territorial nature of the patent rights in question.

4. Members shall not challenge any measures taken in conformity with the provisions of this Article and the Annex to this Agreement under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994.

5. This Article and the Annex to this Agreement are without prejudice to the rights, obligations and flexibilities that Members have under the provisions of this Agreement other than paragraphs (f) and (h) of Article 31, including those reaffirmed by the Declaration on the TRIPS Agreement and Public Health (WT/MIN(01)/DEC/2), and to their interpretation. They are also without prejudice to the extent to which pharmaceutical products produced under a compulsory licence can be exported under the provisions of Article 31(f).

CLASS 10, Protection of Geographical Indications, Traditional Knowledge, Genetic Resources, and Expressions of Folklore

AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS, INCLUDING TRADE IN COUNTERFEIT GOODS

SECTION 3: GEOGRAPHICAL INDICATIONS

Article 22

Protection of Geographical Indications

1. Geographical indications are, for the purposes of this Agreement, indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.

2. In respect of geographical indications, Members shall provide the legal means for interested parties to prevent:

(a) the use of any means in the designation or presentation of a good that indicates or suggests that the good in question originates in a geographical area other than the true place of origin in a manner which misleads the public as to the geographical origin of the good;

(b) any use which constitutes an act of unfair competition within the meaning of Article 10bis of the Paris Convention (1967).

3. A Member shall, ex officio if its legislation so permits or at the request of an interested party, refuse or invalidate the registration of a trademark which contains or consists of a geographical indication with respect to goods not originating in the territory indicated, if use of the indication in the trademark for such goods in that Member is of such a nature as to mislead the public as to the true place of origin.

4. The provisions of the preceding paragraphs of this Article shall apply to a geographical indication which, although literally true as to the territory, region or locality in which the goods originate, falsely represents to the public that the goods originate in another territory.

Article 23

Additional Protection for Geographical Indications for Wines and Spirits

1. Each Member shall provide the legal means for interested parties to

prevent use of a geographical indication identifying wines for wines not originating in the place indicated by the geographical indication in question or identifying spirits for spirits not originating in the place indicated by the geographical indication in question, even where the true origin of the goods is indicated or the geographical indication is used in translation or accompanied by expressions such as "kind", "type", "style", "imitation" or the like.

2. The registration of a trademark for wines which contains or consists of a geographical indication identifying wines or for spirits which contains or consists of a geographical indication identifying spirits shall be refused or invalidated, ex officio if domestic legislation so permits or at the request of an interested party, with respect to such wines or spirits not having this origin.

3. In the case of homonymous geographical indications for wines, protection shall be accorded to each indication, subject to the provisions of paragraph 4 of Article 22 above. Each Member shall determine the practical conditions under which the homonymous indications in question will be differentiated from each other, taking into account the need to ensure equitable treatment of the producers concerned and that consumers are not misled.

4. In order to facilitate the protection of geographical indications for wines, negotiations shall be undertaken in the Council for Trade-Related Aspects of Intellectual Property Rights concerning the establishment of a multilateral system of notification and registration of geographical indications for wines eligible for protection in those Members participating in the system.

Article 24
International Negotiations; Exceptions

1. Members agree to enter into negotiations aimed at increasing the protection of individual geographical indications under Article 23. The provisions of paragraphs 4-8 below shall not be used by a Member to refuse to conduct negotiations or to conclude bilateral or multilateral agreements. In the context of such negotiations, Members shall be willing to consider the continued applicability of these provisions to individual geographical indications whose use was the subject of such negotiations.

2. The Council for Trade-Related Aspects of Intellectual Property Rights shall keep under review the application of the provisions of this Section; the first such review shall take place within two years of the entry into force of the Agreement Establishing the WTO. Any matter affecting the compliance with the obligations under these provisions may be drawn to the

attention of the Council, which, at the request of a Member, shall consult with any Member or Members in respect of such matter in respect of which it has not been possible to find a satisfactory solution through bilateral or plurilateral consultations between the Members concerned. The Council shall take such action as may be agreed to facilitate the operation and further the objectives of this Section.

3. In implementing this Section, a Member shall not diminish the protection of geographical indications that existed in that Member immediately prior to the date of entry into force of the Agreement Establishing the WTO.

4. Nothing in this Section shall require a Member to prevent continued and similar use of a particular geographical indication of another Member identifying wines or spirits in connection with goods or services by any of its nationals or domiciliaries who have used that geographical indication in a continuous manner with regard to the same or related goods or services in the territory of that Member either (a) for at least ten years preceding the date of the Ministerial Meeting concluding the Uruguay Round of Multilateral Trade Negotiations or (b) in good faith preceding that date.

5. Where a trademark has been applied for or registered in good faith, or where rights to a trademark have been acquired through use in good faith either:

(a) before the date of application of these provisions in that Member as defined in Part VI below; or

(b) before the geographical indication is protected in its country of origin;

measures adopted to implement this Section shall not prejudice eligibility for or the validity of the registration of a trademark, or the right to use a trademark, on the basis that such a trademark is identical with, or similar to, a geographical indication.

6. Nothing in this Section shall require a Member to apply its provisions in respect of a geographical indication of any other Member with respect to goods or services for which the relevant indication is identical with the term customary in common language as the common name for such goods or services in the territory of that Member. Nothing in this Section shall require a Member to apply its provisions in respect of a geographical indication of any other Member with respect to products of the vine for which the relevant indication is identical with the customary name of a grape variety existing in the territory of that Member as of the date of entry into force of the Agreement Establishing the WTO.

7. A Member may provide that any request made under this Section in connection with the use or registration of a trademark must be presented within five years after the adverse use of the protected indication has become generally known in that Member or after the date of registration of the trademark in that Member provided that the trademark has been published by that date, if such date is earlier than the date on which the adverse use became generally known in that Member, provided that the geographical indication is not used or registered in bad faith.

8. The provisions of this Section shall in no way prejudice the right of any person to use, in the course of trade, his name or the name of his predecessor in business, except where such name is used in such a manner as to mislead the public.

9. There shall be no obligation under this Agreement to protect geographical indications which are not or cease to be protected in their country of origin, or which have fallen into disuse in that country.

DOHA WTO FOURTH MINISTERIAL CONFERENCE 2001: MINISTERIAL DECLARATION

WT/MIN(01)/DEC/1
20 November 2001
Ministerial declaration

Adopted on 14 November 2001

18. With a view to completing the work started in the Council for Trade-Related Aspects of Intellectual Property Rights (Council for TRIPS) on the implementation of Article 23.4, we agree to negotiate the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits by the Fifth Session of the Ministerial Conference. We note that issues related to the extension of the protection of geographical indications provided for in Article 23 to products other than wines and spirits will be addressed in the Council for TRIPS pursuant to paragraph 12 of this declaration.

2003 WTO Report prior to the Cancun Fifth Ministerial Conference (August 2003)
http://www.wto.org/english/tratop_e/trips_e/gi_background_e.htm
TRIPS: GEOGRAPHICAL INDICATIONS

Background and the current situation

Geographical indications are place names (in some countries also words associated with a place) used to identify the origin and quality, reputation or other characteristics of products (for example, “Champagne”, “Tequila” or “Roquefort”).

Two issues are debated in the TRIPS Council under the Doha mandate: creating a multilateral register for wines and spirits; and extending the higher (Article 23) level of protection beyond wines and spirits.

Geographical indications in general

Geographical indications are place names (in some countries also words associated with a place) used to identify the origin and quality, reputation or other characteristics of products (for example, “Champagne”, “Tequila” or “Roquefort”). Protection required under the TRIPS Agreement is defined in two articles.

All products are covered by Article 22, which defines a standard level of protection. This says geographical indications have to be protected in order to avoid misleading the public and to prevent unfair competition.

Article 23 provides a higher or enhanced level of protection for geographical indications for wines and spirits (subject to a number of exceptions, they have to be protected even if misuse would not cause the public to be misled). A number of countries want to extend this level of protection to a wide range of other products, including food and handicrafts. Among the exceptions that the agreement allows are: when a name has become a common (or “generic”) term (for example, “cheddar” now refers to a particular type of cheese not necessarily made in Cheddar, in the UK), and when a term has already been registered as a trademark (for example, in Italy “Parma” is a type of ham from the region of the city of Parma, but in Canada it is a registered trademark for ham made by a Canadian company).

Information that members have supplied during a fact-finding exercise shows that countries employ a wide variety of legal means to protect geographical indications: ranging from specific geographical indications laws to trademark law, consumer protection law, or common law. The TRIPS Agreement and current TRIPS work in the WTO takes account of that diversity.

Two issues are debated under the Doha mandate: creating a multilateral register for wines and spirits; and extending the higher (Article 23) level of protection beyond wines and spirits. Both are as contentious as any other subject on the Doha agenda.

The multilateral register for wines and spirits

This negotiation, which takes place in dedicated "special sessions" of the TRIPS Council, deals with wines and spirits, which are given a higher level of protection for geographical indications (TRIPS Article 23) than other products (which are protected under Article 22). This means the wines' and spirits' names should, in principle, be protected even if there is no risk of misleading consumers or of unfair competition.

The negotiations for creating a multilateral register for geographical indications for wines and spirits are required under Article 23.4 of the TRIPS Agreement. Work began in July 1997, but the negotiations are now under the Doha Agenda (the Doha Declaration's paragraph 18). They are separate from the question of whether the higher level of protection given to wines and spirits should be extended to other products, although some countries have said they want the higher level of protection to be extended to other products and the register to cover those other products.

The Doha mandate

The WTO TRIPS Council had already started work on a multilateral registration system for geographical indications for wines and spirits over four years before the Doha meeting. The Doha Declaration sets a deadline for completing the negotiations: the Fifth Ministerial Conference in 2003.

Since then …

Two sets of proposals have been submitted over the years, representing the two main lines of argument in the negotiations. The latest are (documents downloadable from Documents Online http://docsonline.wto.org on the WTO website):

* The "joint paper", documents: TN/IP/W/5 from Argentina, Australia, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Japan, Namibia, New Zealand, the Philippines, Chinese Taipei and the US; and TN/IP/W/6, a communication from Argentina, Australia, Canada, Chile, New Zealand and the US.

This group proposes a voluntary system where notified geographical indications would be registered in a database. Those governments choosing to participate would have to consult the database when taking decisions on protection in their countries. Non-participating members would be "encouraged" but "not obliged" to consult the database.

∞ The "EU proposal" (document IP/C/W/107/Rev.1) whose objectives have been supported in document TN/IP/W/3 signed by Bulgaria, Cyprus, the Czech Republic, the EU, Georgia, Hungary, Iceland, Malta, Mauritius, Moldova, Nigeria, Romania, the Slovak Republic, Slovenia, Sri Lanka, Switzerland and Turkey.

This proposes that the registration would establish a "presumption" that the geographical indication is to be protected in all other countries — a presumption that

can be challenged on certain grounds. The TRIPS Agreement allows some exceptions to the obligation to protect geographical indications, for example if a term has become generic or if it does not fit the definition of a geographical indication. Under the EU proposal, once a term has been registered, no country could refuse protection on these grounds, unless it had challenged the term within 18 months.

Hungary has a slightly modified proposal with an arbitration system to settle differences (document IP/C/W/255)

Hong Kong, China has recently proposed a compromise in which registering a term would enjoy a less limited "presumption" in participating countries than under the EU proposal (document TN/IP/W/8).

The Secretariat has produced a document compiling the various positions so far: TN/IP/W/7/Rev.1, dated 23 May 2003 (with a correction, TN/IP/W/7/Rev.1/Corr.1 dated 20 June), also available on Documents Online (http://docsonline.wto.org).

At the heart of the debate are a number of key questions. What legal effect, if any, would a registration system need to have within member countries, if the register is to serve the purpose of "facilitating protection" (the phrase used in Article 23.4)? And to what extent, if at all, should the effect apply to countries not participating in the system. There is also the question of the administrative and financial costs for individual governments and whether they would outweigh the possible benefits.

Opinions are strongly held on both sides of the debate, with some highly detailed arguments presented by both sides.

The draft text

The chairperson circulated a "draft text" on 16 April 2003. This was discussed for the first time at the 29–30 April meeting and continued in June and July. Where members differ strongly, the text includes options, A, B, and B1 and B2.
"A" represents the "joint paper" (TN/IP/W/5) by the US, Canada, Australia, Chile, Argentina, Japan and others (full list above).
"B" represents the Europeans. This is further split into two variants:
"B1": the EU version, where a challenge is handled by bilateral consultations. If the question remains unresolved, the challenging country does not have to protect the geographical indication.
"B2": the Hungarian proposal (supported by Switzerland), which proposes settling unresolved challenges by arbitration.…

Extending the "higher level of protection" beyond wines and spirits

A number of countries want to negotiate extending to other products the higher level of protection (Article 23) currently given to wines and spirits. Others oppose the move, and

the debate in the TRIPS Council has included the question of whether the Doha Declaration provides a mandate for negotiations.

The issue is linked to the agriculture negotiations. Some countries have said that progress in this aspect of geographical indications would make it easier for them to agree to a significant deal in agriculture. Others reject the view that the Doha Declaration makes this part of the balance of the negotiations. At the same time, the European Union has also proposed negotiating the protection of specific names of specific agricultural products as part of the agriculture negotiations.

The Doha mandate

The Doha Declaration notes that the TRIPS Council will handle this under the declaration's paragraph 12 (which deals with implementation issues). Paragraph 12 says "negotiations on outstanding implementation issues shall be an integral part" of the Doha work programme. Where there is not a specific negotiating mandate in the Doha Declaration, implementation issues "shall be addressed as a matter of priority by the relevant WTO bodies, which shall report to the Trade Negotiations Committee [TNC], established under paragraph 46 below, by the end of 2002 for appropriate action."

Delegations interpret Paragraph 12 differently. Many developing and European countries argue that the so-called outstanding implementation issues are already part of the negotiation and its package of results (the "single undertaking"). Others argue that these issues can only become negotiating subjects if the Trade Negotiations Committee decides to include them in the talks — and so far it has not done so.

Since then …

This difference of opinion over the mandates means that the discussions have had to be organized carefully. At first they continued in the TRIPS Council. More recently (in 2003), they have been the subject of informal consultations chaired by Director-General Supachai Panitchpakdi.

Members remain deeply divided, with no conclusion in sight, although they are ready to continue discussing the issue.

Those advocating the extension (including Bulgaria, China, the Czech Republic, the EU, Hungary, Liechtenstein, Kenya, Mauritius, Nigeria, Pakistan, the Slovak Republic, Slovenia, Sri Lanka, Switzerland, Thailand and Turkey) see the higher level of protection as a means of marketing their products, and they object to other countries "usurping" their terms.

Those opposing extension argue that the existing (Article 22) level of protection is adequate, and that providing enhanced protection would be expensive. They also reject the "usurping" accusation particularly when migrants have taken the methods of making the products and the names with them to their new homes. For this reason, the debate has

been described as one between “old world” and “new world” countries. But the description is not entirely accurate since the countries opposing extension include some that are not in the “new world” category.

April 04 2005 - International

WTO rules against European Union in GI dispute

A World Trade Organization (WTO) panel has released its decision in the cases filed by the United States and Australia, which alleged that Council Regulation 2081/92 on geographical indications (GIs) impermissibly restricts the rights of trademark owners and discriminates against GIs originating in WTO countries outside the European Union.

The panel ruled that the regulation improperly prevents trademark owners from attacking the registration and use of GIs that create a likelihood of confusion with earlier trademarks.

The panel also ruled in favour of the United States and Australia on their assertion that the European Union improperly limits registration of GIs to applicants from countries with a registration system that mirrors that of the European Union. Although the European Commission contended that this "equivalence and reciprocity" requirement did not apply to GI owners in other WTO countries, the panel found such arguments unpersuasive. Additionally, the panel held that the requirement for governmental involvement in the process for registration of GIs in the European Union and in any oppositions to such registrations were discriminatory against nationals of other WTO countries.

The panel held that rights in registered GIs cover only the linguistic version actually registered and do not extend to any variations or translations of those terms. A particular case in point cited by the panel was the registration as GIs in the European Union of the Czech language names for three Czech beers, granted as part of the accession agreement of the Czech Republic to the European Union.

Despite these rulings, the European Commission issued a press release asserting that the panel had upheld the principle of coexistence of trademarks and GIs, which it regards as a key element of the disputed regulation. Although the panel found that principle to be inconsistent with the rights of prior trademark owners, the evidence submitted by the commission showed that actual conflicts were rare and there were a variety of legal safeguards for resolving potential conflicts without substantially impinging upon the rights of trademark owners. Based on that evidence, the panel ruled that this aspect of the regulation was a "limited exception" that allowed fair use of descriptive terms. Such exceptions are permitted so long as they do not result in a significant likelihood of confusion. However, the panel made clear that coexistence could not be allowed where there was a high likelihood of confusion with a prior trademark.

No immediate changes will result from this decision. The commission is entitled to appeal the panel decision and implementation of the ruling would require amendment of the EU regulation. The WTO procedures encourage consultation at every stage of the dispute resolution process. Therefore, any practical consequences of this decision may not take place for several years.

For a background discussion on the international dispute over GIs, see WTO issues interim decision against expansion of GI protection and Let the best ham win: reforming GI protection worldwide.

Virginia S Taylor, Kilpatrick Stockton LLP, London

GI-China Provides Further Protection of Geographic Indications

Matthew Murphy
date: Tuesday, September 06, 2005

Introduction

Since early in the 20th century, many countries have adopted regulatory systems to protect geographical indications. The "Agreement on Trade-Related Aspects of Intellectual Property Rights" (TRIPS) stipulates that geographical indications are indications which identify a good as originating from the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin. TRIPS requires its members to provide legal tools to protect its geographical indications. China already has in place various regulations that provide some protection to geographical indications such as various provisions in the PRC Trademark Law and its Implementing Regulations and other geographic management regulations. The new Regulation on Protection of Products of Geographical provides certain powers to the particular government agencies to enforce various rights and regulations relating to geographic indications – they will supplement the legal regime providing various rights and avenues of recourse to entities wishing to obtain greater protection of special geographic indications (both Chinese and foreign).

International Protection Standards

France was the first country to enact legislation to protect geographic indications in 1935, given its wine industry and branding concerns. On July 14, 1992, the European Economic Community enacted Directive 2081/92 to protect geographical indications in relation to edible and non-edible farm produce. In 1999, India issued a "Law on Commodity Geographical Indications" to protect geographical indications. South Korea protects geographical indications by various provisions in its competition laws.

The USA usually treats geographical indications, whether domestic or overseas, as certification trademarks for protection. Whilst in Australia, geographical indications are protected according to national and state laws, foodstuff criteria and common law, etc.

China

At present, there are two ways to protect geographical indications in China, either under the PRC Trademark Law and/or by the State General Administration of Quality Supervision, Inspection and Quarantine under various administrative regulations and rules to protect the geographical indications

(i) The Trademark Law provisions

Article 16 stipulates that it is not possible to register a mark as a trademark for a product (or to use such a mark in commerce in the PRC), if that mark includes a geographical indication, the products do not actually originate from the place of geographical indication as indicated by the mark and the public will be misled as a result. Further, the Implementing Regulations state that geographic indicators can be registered as certification marks or collective marks.

(ii) The New Regulations

The State General Administration of Quality Supervision, Inspection and Quarantine issued the Regulation on Protection of Products of Geographical Indications published on June 7, 2005. This new regulation provides a definition of products of geographical indication as follows – "Products of geographical indication refer to those products nominated by a geographical name after being examined and approved, originating from the specific region, whose quality, reputation or other characteristics depend on natural factors and humane factors of this producing area". This regulation provides that the State General Administration of Quality Supervision, Inspection and Quarantine is responsible for the protection of national products of geographical indication. Regional Entry-Exit Inspection and Quarantine Bureaus and local bureaus of quality and technical supervision are to be in the frontline in relation to ensuring compliance with the regulation. If a product needs to be protected, an application must be filed with the relevant government office and approval/registration for protection obtained. Both foreign and Chinese geographical indications can be protected under the new regulations.

If an entity obtains permission to use a geographical indication, but does not organize production according to the corresponding standards and management norms, or has not used the geographical indicator within 2 years, then the State General Administration of Quality Supervision, Inspection and Quarantine can cancel their geographical indication registration. In addition, for those who have violated provisions of the regulation, the Department of Quality and Technical Supervision and the Entry-Exit Inspection and Quarantine Department can fine them for their violations. If the violation is so serious that the acts constitute a crime, then those persons violating the regulation can be punished under the relevant criminal law provisions.

With the implementation of this regulation, it will be possible to protect Chinese products using geographical indications – it will be easier to check on the quality and characteristics of the products by noting the geographic indication – this has great

benefits in relation to Chinese tea, Chinese medicine and herbal remedies, wins and beverages, etc. What's more, the reputation and the market competitive ability of the product of geographical indication will be enhanced. The enacting of the regulation promotes the development of the industrialization of the products of geographical indication and establishes production standards and conditions.

Commencement and Implementation

This regulation came into force on July 15, 2005. We are looking forward to seeing how this regulation is implemented across the country. There could be some interesting developments:

Hopefully, the Chinese government will harmonize the relationship between the Department of Quality Supervision, Inspection and Quarantine and the Administration of Industry and Commerce in order to iron out any inconsistencies that might exist in the application of the PRC Trademark Law provisions and the new regulation.

If the new regulation is well promoted, Chinese citizens should increase their consciousness of obeying and using this regulation and be active in registration of geographical indications.

The departments in charge of the protection of the products and the registration of geographic indications should be duteous and handle affairs impartially – there is significant scope for subjective decisions in the new regulations, so it is hoped that further objective criteria will be established and made public in the near future.

Outlook

Given China's entry into the WTO is a relatively event and that it is still refining regulations relating to some of the most basic WTO requirements, it is encouraging to see that due attention is being given to protecting geographic indicators – obviously as more and more Chinese companies export their products, it is vital that their famous geographical indicators are protected in order to ensure quality and reputation for years to come.

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ACCESS AND BENEFIT SHARING WITH THE HOLDERS OF TRADITIONAL KNOWLEDGE, AND EXPRESSIONS OF FOLKLORE

May 30, 2006
Poisonous Tree Frog Could Bring Wealth to Tribe in Brazilian Amazon
By PAULO PRADA

CAMPINAS INDIAN RESERVE, Brazil — Fernando Katukina is chief of an indigenous tribe that lives largely without running water, electricity, or links to the world outside this remote corner of the western Amazon.

But Chief Fernando says he possesses a treasure that could be at the cutting-edge of biotechnology. If a plan initiated by the chief is successful, his tribe's fortunes will be transformed by an asset he and the Brazilian government believe holds great promise for the global pharmaceutical industry: the slime from a poisonous tree frog.

Tribal shamans have used the slime as an ancestral remedy to treat illness, pain, even laziness. The crucial ingredients are compounds with anesthetic, tranquilizing and other medicinal properties. Scientists say the promise lies in isolating peptides from the frog's slime and then reproducing them for medicines to treat hypertension, strokes and other illnesses

Already, Chief Fernando has the full backing of Brazil's government, which sees the frog slime as a stepping stone to significantly advance its own research and development in pharmaceuticals. In particular, the scientific challenge of the frog, known locally as the kambô, will deepen Brazil's expertise in pharmacogenomics — the combined use of genetics and pharmacology — and it takes advantage of the traditional knowledge of indigenous people.

"Traditional knowledge can help modern medicine and generate significant economic benefits, too," said Bruno Filizola, technical coordinator of the project and a biologist at the environment ministry in Brasília, Brazil's capital.

The indigenous dimension is also crucial because Brazil, like other developing nations, is trying to fight back against what it perceives as biopiracy, the theft of biological resources from the country's native habitats for commercial use. Though the project is still in its early stages, and many starts often prove false, teams of some 20 scientists are seeking initial financing of close to $1 million from more than a dozen local universities, state governments and federal agencies.

There is also a great deal more than naïve hope at stake here. Brazilian scientists have already taught the country's farmers, who today are among the world's top exporters, to manipulate soils and alter crops once unsuited for the country's

climate. Now many researchers believe science can turn Brazilian forests into working, productive laboratories.

"Brazil has a large, growing and capable community of scientists keen to develop their own research and products," said Joshua Rosenthal, deputy director of a division for international training and research at the National Institutes of Health in Bethesda, Md.

Moreover, Brazilian researchers have not forgotten the case of the jararaca, the Amazonian viper. The pharmaceutical giant Squibb used the snake's venom to develop captopril, a blood pressure medicine it began selling in 1975. Though available generically since 1996, the medicine at its commercial peak was the largest selling product for the company, now part of New York-based Bristol-Myers Squibb, grossing $1.6 billion in 1991.

"Because of past errors," reads a document from the Brazilian Environment Ministry, "captopril is not Brazilian."

Though home to the world's largest rainforest and one of the most biodiverse ecosystems on the planet, Brazil traditionally has been slow to develop its so-called genetic patrimony — the plants and animals within its territory and the potential they offer for profit. The Ministry document also laments Brazil's historical research lag and the consequent loss of billions in potential revenues from pharmaceuticals, agricultural products, and other commercial goods.

An overview for the effort known as Project Kambô, written by a team of researchers at the Environment Ministry, says, "The national genetic patrimony could be the key to Brazil's transformation in the global political and socio-economic context."

The effort comes as developing countries increasingly promote the idea of developing and commercializing their traditional medicines and local arts. And they are questioning the rights of foreigners to exploit their locally derived products. At a United Nations gathering in the southern Brazilian city of Curitiba last month, delegates from developing nations called for changes to international law that would allow governments to block — or at least share profits from — foreign patents on biological resources found in their territory.

In December, at a World Trade Organization meeting in Hong Kong, India's trade minister told delegates that progress in global trade talks hinged on similar changes.

Private industry is wary. The road from research to finished product is long and costly. Rare is the compound, companies argue, that in unadulterated form would become the next wonder drug or other commercial bonanza.

"Developing nations should take a lead by working to develop their own resources — not blocking the efforts of others to research and invest," said Alan Oxley, a former Australian trade ambassador who is now a consultant in Melbourne and runs a research institute funded in part by the U.S. pharmaceutical industry.

Brazil aims to take a lead through the kambô. The project was launched last year after Marina Silva, Brazil's environment minister, received a letter from Fernando, the Katukina chief, denouncing the growing use of kambô poison by outsiders. Its perceived benefits in recent years fueled a pirate trade in the poison in cities across Brazil.

The poison could be dangerous if administered wrongly, Chief Fernando warned. And its use, the letter added, is nothing less than biopiracy; if economic gain is generated by the remedy, the Katukina tribe should get a cut.

Ms. Silva, a native of the tribe's home state of Acre, agreed. She authorized a ministry project to study the kambô, stipulating that any profits derived from the research be shared with the Katukina.

"The know-how is the tribe's," she said in a recent telephone interview. "They must share in any rewards."

Scientists have studied the kambô before. Called the giant monkey frog in English, because it climbs high into the rainforest canopy, the kambô first sparked attention among foreign researchers decades ago. Some of the compounds from the poison, secreted through the frog's skin, have even been patented abroad.

Yet because scientists are still struggling to understand the poison, none of those patents have led to successful products. "These compounds have potent effects on human physiology," said Paul Bishop, a biochemist at ZymoGenetics, a Seattle-based pharmaceutical company, and the author of five patents based on kambô poison. "But we don't fully understand them all or just why they occur in the defenses of this tree frog."

That is where Brazil hopes to excel. While biologists and chemists investigate the kambô, its habitat and the poison's makeup, a team of anthropologists and physicians will study the long-term impact of its use on the Katukina.

One morning in mid-March, two scientists from the Federal University of Acre visited the tribe's reserve, a 125-square mile section of jungle near the Peruvian border. There, amid one of five clusters of wooden cabins, two shamans agreed to administer the kambô remedy, known in Portuguese as the "vacina do sapo," or "frog vaccine."

Reginaldo Machado, a biologist, stood shirtless and sweating next to an older shaman, who touched the red-hot end of a burning twig three times to the scientist's

shoulder. The other shaman, another twig in hand, then daubed the sticky, mud-like poison on each of the tiny burns.

Mr. Machado, already in pain from a flare-up of chronic kidney stones, within seconds sprang from the wooden shack, suffering hot flashes, nausea, and stomach aches. Ten minutes later, he returned, expressing surprise.

"I actually do feel stronger," he said. "There's more to this than myth."

Though western dress long ago replaced the grass skirts traditionally worn by tribal people, the frog remedy is one of a handful of customs the Katukina preserve.

After catching the frog in nearby trees, tribe members tie it spread-eagle style between two posts, collecting slime from its back and sides with a piece of wood, where it dries. They then release the frog and later, with water or saliva, re-hydrate the dried poison before applying it.

Despite the term "vaccine," the slime does not vaccinate against any specific germ or illness.

Once the body processes the poison's toxins — hence Mr. Machado's sweats and indigestion — its compounds induce what users say is a prolonged sense of alertness and wellbeing. Because they believe it heightens their senses, Katukina hunters traditionally use it most: Long rows of burn scars dot their arms, chests and stomachs.

Most Katukina speak only the tribal variant of pano, a native Amazonian language group. Fernando, one of only two tribe members to work outside the reserve, is convinced of the kambô's value, and adamant that the medication, if used by others, can improve a tribal economy that is currently at the level of subsistence.

"The vaccine belongs to us," he said. "Science might help us develop it, but kambô knowledge is Katukina."

AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS, INCLUDING TRADE IN COUNTERFEIT GOODS

Article 29

Conditions on Patent Applicants

1. Members shall require that an applicant for a patent shall disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art and may require the applicant

to indicate the best mode for carrying out the invention known to the inventor at the filing date or, where priority is claimed, at the priority date of the application.

2. Members may require an applicant for a patent to provide information concerning his corresponding foreign applications and grants.

WORLD TRADE ORGANIZATION
31 May 2006
General Council

DOHA WORK PROGRAMME – THE OUTSTANDING IMPLEMENTATION ISSUE ON THE RELATIONSHIP BETWEEN THE TRIPS AGREEMENT AND THE CONVENTION ON BIOLOGICAL DIVERSITY

Communication from Brazil, India, Pakistan, Peru, Thailand and Tanzania

The following communication, dated 29 May 2006, is being circulated at the request of the delegation of India also on behalf of the delegations of Brazil, Pakistan, Peru, Thailand and Tanzania.

In the Doha Ministerial Declaration, Ministers agreed that negotiations on outstanding implementation issues shall be an integral part of the Work Programme they established. The relationship between the TRIPS Agreement and the Convention on Biological Diversity (CBD) is an outstanding implementation issue. In addition to the intensive technical work in the TRIPS Council since then, the Director General has undertaken dedicated consultations through his Friends, including more recently through Mr. Rufus Yerxa, Deputy Director General. There have been extensive discussions in these processes on the introduction into the TRIPS Agreement of a mandatory requirement for the disclosure of origin of biological resources and/or associated traditional knowledge used in inventions for which intellectual property rights are applied for.

In the Hong Kong Ministerial Declaration, the Ministers requested the Director General to intensify the consultations and to report to each regular meeting of the TNC and the General Council. Further, the Ministers instructed that the General Council shall review progress and take any appropriate action no later than 31 July 2006. In order to enable the Members to take appropriate action by this date, a

number of Members have proposed moving towards text-based negotiations on the disclosure of origin requirement. Accordingly, this communication presents a proposal for such a text, taking into account the objectives of the requirement as well as the questions, comments and concerns raised by various Members in the negotiations so far. The proposed text will assist the consultations being undertaken by the Director General.

The said text is attached.

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Article 29*bis* [proposed] Disclosure of Origin of Biological Resources and/or Associated Traditional Knowledge

1. For the purposes of establishing a mutually supportive relationship between this Agreement and the Convention on Biological Diversity, in implementing their obligations, Members shall have regard to the objectives and principles of this Agreement and the objectives of the Convention on Biological Diversity.

2. Where the subject matter of a patent application concerns, is derived from or developed with biological resources and/or associated traditional knowledge, Members shall require applicants to disclose the country providing the resources and/or associated traditional knowledge, from whom in the providing country they were obtained, and, as known after reasonable inquiry, the country of origin. Members shall also require that applicants provide information including evidence of compliance with the applicable legal requirements in the providing country for prior informed consent for access and fair and equitable benefit-sharing arising from the commercial or other utilization of such resources and/or associated traditional knowledge.

3. Members shall require applicants or patentees to supplement and to correct the information including evidence provided under paragraph 2 of this Article in light of new information of which they become aware.

4. Members shall publish the information disclosed in accordance with paragraphs 2 and 3 of this Article jointly with the application or grant, whichever is made first. Where an applicant or patentee provides further information required under paragraph 3 after publication, the additional information shall also be published without undue delay.

5. Members shall put in place effective enforcement procedures so as to ensure compliance with the obligations set out in paragraphs 2 and 3 of this Article. In particular, Members shall ensure that administrative and/or judicial authorities

have the authority to prevent the further processing of an application or the grant of a patent and to revoke, subject to the provisions of Article 32 of this Agreement, or render unenforceable a patent when the applicant has, knowingly or with reasonable grounds to know, failed to comply with the obligations in paragraphs 2 and 3 of this Article or provided false or fraudulent information.

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