I. INTRODUCTION AND OVERVIEW

Georges Koumantos, REFLECTIONS ON THE CONCEPT OF INTELLECTUAL PROPERTY in INTELLECTUAL PROPERTY AND INFORMATION LAW: ESSAYS IN HONOR OF HERMAN COHEN JEHORAM 39-45 (1998)

Terminology

Historical research gives us an indication of when the term "intellectual property" first appeared in the sense in which it is used today. Its first official use goes back to the 1950s, when the two International Bureaux set up under the Paris Convention (1883) and Berne Convention (1886) to administer the two Conventions—the two bureaux were amalgamated in 1893—were named "Bureaux Internationaux Réunis pour la Propriété Intellectuelle" (BIRPI). These were the forerunners of the "Organisation Mondiale de la Propriété Intellectuelle" [in English, the World Intellectual Property Organization, or "WIPO"] founded in 1967 in Stockholm.

This first official use of the term determines its purport, which coincides with that of the two jointly administered Conventions—two Conventions but three main objects. To begin with, the concept of intellectual property covered literary and artistic property (subsequently more commonly known as "droit d'auteur" ("author's rights") or "copyright" in common law countries—Berne Convention), patents (corresponding to industrial property—Paris Convention) and trademarks (which ought really to be considered as commercial property—also Paris Convention). Another matter dealt with by the latter Convention, the law of unfair competition, could also be regarded as an aspect of intellectual property, but there are some doubts on this point owing to matters of legal interpretation. Intellectual property, like most concepts, has with time experienced several shifts in its meaning. . . .

Remaining in the area of terminology, it should be noted that the term "intellectual property", generally accepted in countries whose languages have Latin roots, is translated by different terms in the Germanic languages, either as a "right over intangible property" (Immaterialgüterrecht) or "legal protection of trades (or industry) and author's rights" (Gewerblicher Rechtsschutz und Urheberrecht). . . .

Meaning of the Concept

As already indicated, the concept of intellectual property was originally designed to cover ownership of literary and artistic works, inventions (patents) and trademarks. What these three objects of intellectual property have in common is their intangibility—emphasized by the German term "Immaterialgüter". The object of the rights constituting intellectual property is not the tangible support incorporating a literary or artistic work, invention or trademark, but rather the form of the work, the invention, the relationship between a symbol and a business, as such.

This shared characteristic allows for the subsequent enlargement of the

concept of intellectual property. This enlargement extends the concept to (a) rights which already existed but were not systematically categorized and (b) rights newly recognized as a result of technological development—where the object of a right transcends tangible support, that right is (or should be) included in the concept of intellectual property.

Thus the concept now covers the following, in addition to patents, trademarks and literary and artistic works:

a. designs and models, which are regulated in part both by the two Conventions cited—Paris (Articles 1, 4, 5 and 5 (v)) and Berne (Article 2)—and the domestic laws of many countries;

b. commercial names, mentioned in the Paris Convention (Article 8) as an object of industrial property and recognized as such—although indicating the subject of the right rather than an object—by the domestic laws of several countries, notably when the name can be transferred with the business;

c. neighbouring rights, regulated internationally by the Rome Convention of 1961 on the protection of performing artists, producers of gramophone records and broadcasting organizations, and nationally by special provisions, often included in the laws on copyright, and often extending the protection to other categories;

d. plant production rights, which are the subject of an international Convention signed in Paris (in 1961 "for the protection of plant production rights") and revised at Geneva (1978 and 1991), and the domestic laws of the 32 countries that ratified the Convention;

e. the topographies of semiconductor products, which are protected by a Treaty signed at Washington (1989, "on intellectual property regarding integrated circuits," not in force) and European Union Directive 87/54 "on the legal protection of topographies of semiconductor products", which has been incorporated in the domestic law of the EU countries;

f. databases, when protected by a sui generis right—but this new area of intellectual property requires more detailed explanation.

The system adopted by the European Union for databases, [cit], provides two types of protection for this modern form of collection, which is both a work of the mind and a product of investment: copyright protection (provided the—softened —conditions are met) and protection by a sui generis right (provided the database involves a major investment). This right . . . is in the nature of a neighbouring right and should therefore fall under the heading of intellectual property. But even leaving aside its resemblance to neighbouring rights, the sui generis right over databases should be considered as falling under the heading of intellectual property because of the intangible nature of its object. . . . .

It remains to be seen whether the list should end here or whether it should be extended to include other objects. The Paris Convention already includes rules on unfair competition in the concept of industrial property (Article 10 (ii)). The TRIPS Agreement includes in its list of objects of intellectual property (Article 1 paragraph 2) geographical indications (Articles 22-24) and secrets (industrial and commercial, Article 39), in addition to those already mentioned (and without the commercial name). What can we say about this position adopted by two major international agreements?

It should be noted, first of all, that the two additional objects included in

the TRIPS Agreement lists merely constitute specific cases of protection against unfair competition. This is stated explicitly in the case of secrets ("to provide effective protection against unfair competition", Article 9 paragraph 1), but the same holds true of [laws permitting the use of] geographical indications [of origin by only producers from the geographical area in question]: it would not be possible to conceive of a subjective right of ownership to a connection between a product and a territorial area, since a right of this kind would belong to all the producers acting in the territorial area and could not be transferred, inherited etc.

The question, then, is whether the rules on unfair competition give rise to objects of intellectual property. From the historical point of view, it should be easy to answer in the affirmative: given that unfair competition is one of the matters regulated by the Paris Convention (Article 10 (ii)) and the administration of this Convention was one of the factors that led to the first official use of the term "intellectual property" . . . it would seem that this term obviously includes unfair competition. But things are more complicated when it comes to legal interpretation.

Intellectual property, like any other kind of property, is a subjective right relating to an object—in the case of intellectual property a work, invention, trademark etc. At first sight the rules on unfair competition do not give rise to a subjective right and consequently do not relate to an object; they merely forbid certain acts, and interested parties can cite them when applying for the prohibition to be enforced. At the heart of the rules on unfair competition is not an object to be protected but an act to be prevented. This cannot therefore be referred to as property nor, in consequence, as intellectual property.

There is an objection that could be made to this conclusion, however. We have seen that the rules on unfair competition, by forbidding certain acts, aim to protect a specific object, a business as a structured entity consisting of goods, legal relationships and market status (goodwill); the rules on unfair competition would thus give rise to a subjective right and would protect an object. If we accept this principle, the right over the business, created indirectly by the rules on unfair competition, should partake of the nature of intellectual property, since its object, the actual structure of the business, is of the intangible nature required.

Common Problems and Different Solutions

Specific laws recognize and regulate each of the rights contained in the concept of intellectual property, but this legislation is never so comprehensive as to render recourse to the general rules of civil law superfluous. Capacity to perform legal acts, the terms and conditions under which subjective rights are exercised, contracts and offences, responsibility, damages, the transfer of rights and the variations of inheritance—all these are issues where intangible property, objects of intellectual property, call for answers in the great reservoir of civil law.

The need to apply rules of civil law is a common feature of objects of intellectual property, but these rules are not applied in the same way to all types of intangible property. Certain adaptations are needed when transposing rules of civil law, essentially designed to be applied to tangible property, to the field of intellectual property. In addition, different approaches are needed when applying these rules to each of the specific objects of intellectual property. . .

Different Rules

Besides the different solutions to problems common to all the objects of intellectual property as a result of interpretation, there are other differences in the legal regulation of each of the rights that constitute intellectual property. Thus the rules concerning the object and the extent of the right, as well as the extent of the protection, differ.

First, the object: copyright protects the form or other original aspects of personal intellectual creation in science or art; trademark law protects the connection between a word (or several words) or a picture and the business from which a product or service emanates; and patent law protects invention, i.e., a new solution to a technical problem which can be applied industrially. Here we have three different objects, the first of which is a creation of the mind, the second of commerce and the third of industry or craft.

Then we have the manner of acquisition: copyright is acquired by the mere fact of intellectual creation, without any formalities, in every country in the world (except the United States, to some extent); a trademark on the other hand, is acquired by recording it in the register of trademarks once it has been checked as complying with the conditions—although the mere fact of using it can give rise to certain restricted rights; and the right to use an invention is acquired by the issue of a patent once the formal conditions and basic conditions have been checked (this latter check is cursory in some countries).

Lastly, we have the extent of the protection: first the duration, which, in the case of copyright, varies depending on the domestic laws, with a minimum of fifty years laid down by the Berne Convention, which has now become seventy years in the European Union; in the case of trademarks it lasts ten years and can be renewed indefinitely; patents last twenty years and are non-renewable. Then there are the civil sanctions, which differ as between the three types of right, and the penal sanctions, which exist only for copyright violations.

Monopolies?

The list of differences in the legal regime governing the various rights which constitute intellectual property is a long one. To this we need to add the major differences based on the economic, social and cultural functions of each of them. It is sometimes argued that the rights that constitute intellectual property create monopoly situations—an opinion most often expressed by "intermediate users", i.e., businessmen wishing to limit these rights so that they can make more profit on them.

The idea that monopolies are the consequence of exclusive rights that constitute intellectual property is based on the hypothesis that all the objects of these rights are unique. But we need to remember that, in very many cases, the objects of intellectual property are interchangeable: if the right holder of the right to an object lays down exorbitant terms for a licence the user may substitute a different object—such competition breaks the monopoly.

But that is not all: it would be wrong to equate the different categories of rights covered by the concept of intellectual property with regard to the

economic, social or cultural weight any monopoly situations created by them could have. After all, there is a big difference between preventing the use of a medicine by virtue of a monopoly and preventing the use of a song or novel. This is why the introduction of non-voluntary licences is often advocated in some areas. Given that the needs differ in intensity, non-voluntary licences (or any other restriction of intellectual property) should be a last resort, and their acceptability and terms and conditions should be examined on a case-by-case basis. To give the same treatment to the different objects of intellectual property goes against a sense of justice.

Is the Concept Justified?

The foregoing has enabled us to identify a large number of differences between the various rights covered by the concept of intellectual property—differences relating to the legal basis (national and international) for their protection, the solutions to certain problems which are common to all of them, their legal regulation, and their economic, social and cultural functions. We have even seen that including these rights in a single concept could result in their being given the same or similar treatment (notably in relation to non-voluntary licences and restrictions), failing to appreciate the need to differentiate. Are there enough common factors to justify the mere existence of the concept of intellectual property?

The need for a common administration for the various international Conventions on the specific rights covered by intellectual property cannot be regarded as an adequate raison d'etre—albeit this may lie at the root of the concept. What would seem to justify its existence is the fact, already mentioned, that all the rights it covers have an essential common feature: the intangible nature of their respective objects and the consequences of this.

But this is not all: the objects of the rights covered by the concept of intellectual property are manifestations of human creativity. The purpose of regulating these rights is to protect this creativity and the creations emanating from it: literary, artistic and scientific works in the case of copyright, technical innovations in the case of patents, and business enterprise in the case of trademarks. It is this idea of protecting creativity that is the most important common factor in all these rights and the main justification for the concept of intellectual property.

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Professor Koumantos references several landmark intellectual property treaties. The Paris Convention for the Protection of Industrial Property is a multinational agreement to which 160 countries are now party. The Berne Convention for the Protection of Literary and Artistic Works was concluded three years after the Paris Convention and now has 144 signatory parties. These two agreements were the principal international intellectual property agreements for over 100 years, and were revised at successive diplomatic conferences throughout the twentieth century (the most recent being the revision of the Berne Convention in Paris in 1971). The last decade of the twentieth century saw a flurry of activity on other fronts. Professor Kourmantos mentions two

intellectual property laws of the European Union (the EU). The EU has become a powerful influence on the direction and content of international intellectual property laws, in part through its promulgation of "regional" intellectual property laws applicable throughout the territories of its increasingly numerous member states (now fifteen). And, in 1994, when the Uruguay Round of the General Agreement on Tariffs and Trade (the GATT) was successfully completed, this hugely significant trade agreement included within it the Agreement on Trade Related Aspects of Intellectual Property (TRIPS). The content and revision of these (and other leading) agreements, as well as the role of the World Intellectual Property Organization (which "administers" the Paris and Berne Conventions), the EU, and the World Trade Organization (under whose auspices the TRIPS Agreement is monitored and enforced), are dealt with in detail in Part III *infra*.

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Andrew Sullivan, DOT-COMMUNIST MANIFESTO[*]
New York Times Magazine, June 11, 2000 at 30

A sharp, unexpected twang of conscience hit me the other day. It occurred to me as I was merrily downloading the umpteenth Pet Shop Boys B side from another Napster user's hard drive. Was this theft? Nobody, I rationalized, was going to be without the Extended Rollo Mix of "New York City Boy" because of my actions. All Napster is, after all, is a huge database of MP3 files, a musical commune dreamed up by a college-freshman geek. And sharing a database isn't theft. If you agree to join the Napster "community," you agree to share every MP3 you have with any other Napsterite who is online at the same time you are. . . .

So whom was I hurting by copying one lousy song? Sure, I'd avoided paying a record company a royalty—but it was rich enough already. Likewise the Pet Shop Boys. And it wasn't as if I'd smuggled a disc out of Tower Records in a knapsack. It wasn't even in any meaningful sense "mine," since other Napster users could now download it from me without my even noticing. Neither had it been in any meaningful sense "theirs"—once they agreed to pool their own MP3 collection with those of other Napsterites.

What exactly was going on here? The only workable definition is communism. . . .By turning physical property into endlessly duplicable e-property, the ancient human problem of "mine-thine" has been essentially solved. . . .

J. Thomas McCarthy, INTELLECTUAL PROPERTY—AMERICA'S OVERLOOKED EXPORT[**]

20 U. Dayton L. Rev. 809, 809-819 (1995)

I. INTRODUCTION: THE CHANGING FACE OF AMERICAN INDUSTRY

As we rush through each busy day, we often have to take no more than a hurried glance at the newspaper or at the news on television to see what's going on in the world. Sometimes we see an item that seems trivial on its face, but we subliminally recognize: "That's an amazing development! Things are changing faster than I thought."

A few years ago I saw one of those seemingly trivial facts noted in the business page and realized: "This is an important signal that the America I grew up with had irrevocably changed." What I saw in the newspaper was that the people who run the Dow Jones Index—a list of thirty industrial stocks representing a cross section of American commerce—dropped U.S. Steel from the list and replaced it with the Walt Disney Company. While the announcement may sound inconsequential, the fact that a steel giant was replaced by an entertainment empire is a symbol which keynotes the subject of this Essay.

Chicago Tribune columnist Bob Greene headlined his column on the subject: "A Mouse Replaces Men of Steel." Greene noted that the Dow Jones Index has always been the paramount financial symbol of U.S. business and industry. The Dow Jones industrial average was what American business was all about. It symbolized the source of America's strength and prosperity—or at least a dream of prosperity. A dream that has driven millions of people around the world to get to America at all costs—no matter what the odds—from countries as diverse as China, Russia, and Cuba.

Growing up in the 1940s and 1950s, I lived in what was then America's biggest factory town—Detroit, Michigan. I was taught that America was a great place to live and a robust and strong nation because it made millions of things that people all around the world wanted. Documentaries boosting American industry always seemed to include a shot of the Ford River Rouge plant (complete with smokestacks belching smoke) or a shot of white hot steel being rolled in a Pittsburgh foundry. Needless to say, U.S. Steel was a major part of that view of industrial America.

U.S. Steel stood shoulder to shoulder on the Dow Jones Index with manufacturing companies like Caterpillar, Chevron Oil, General Electric, Goodyear, and Union Carbide. What is a company whose major asset is Mickey Mouse doing with these brawny types?

The face of American business is changing, and changing fast. What America makes and what the rest of the world wants to buy is also changing. In ten years, Disney has grown "from an ailing $2 billion Hollywood also-ran into a $22 billion empire." Disney is a major entertainment company. Disney sells entertainment, leisure, and dreams to America and to the rest of the world. Disney World in Orlando, Florida is the world's most heavily visited tourist destination. Every day, dozens of jets land at Orlando's airport, bringing people from all over the world. Their destination is a place that once was covered with orange groves and swamps. Not bad for a mouse.

Disney sells entertainment through movies, videos, television programs, theme parks, books and records. But what exactly is the basis of the Disney empire? We knew that the heart of U.S. Steel was property—those huge mills spewing sparks, belching smoke and turning out rolled steel twenty-four hours a day. But what is the property that is at the heart of a company like Disney? It is a new kind of property. We call it intellectual property. Intellectual, only because it is a property right in the products of the intellect—a product of the human mind, as opposed to real estate or tangible objects.

I know that I am oversimplifying to make my point. Of course, U.S. Steel had intellectual property in know how and engineering innovations. Disney, of course, owns a substantial amount of highly valuable real estate. But I want to focus on the heart of the fundamental differences between these two companies in order to illustrate how this simple substitution of one company for the other on the Dow Jones Index symbolizes the new era we are entering. Some call it the information age.

II. WHAT IS INTELLECTUAL PROPERTY?

Basically, the subject of all kinds of intellectual property is information. The job of intellectual property law is to create property rights in newly created information. We are continually told that we are entering a post-industrial information age. An age in which by far the most valuable thing to own and control is information—technological information, business information, political information and information about people. . . .

One of the wealthiest and most influential people in America today is Bill Gates, founder of Microsoft. Gates does not get the media coverage of a politician, but I think he is just as influential. And what product does Microsoft make? Nothing tangible, really. . . .

III. INTELLECTUAL PROPERTY AND EXPORTS

Intellectual property has become one of the few bright spots in the otherwise dreary U.S. balance-of-trade picture. The rest of the world does not want to buy American cars or steel in the quantities purchased in years past. The world does want, however, to buy our computer programs, our movie and television entertainment and our high-tech information.

The United States enjoys a remarkable seventy-five percent of the international market for prepackaged computer software and a whopping sixty percent of the world market for software-related services. With the exception of agriculture, intellectual property producers make a larger positive contribution to the U.S. trade balance than any other U.S. industry. Although the statistics are largely guesses, U.S. exports of intellectual property have purportedly doubled in recent years and have been estimated to constitute as much as twenty-five percent of U.S. exports. Foreign sales in the copyright industry—publishing, computer programs, film making and the like—are larger than those of paper, plastics, rubber, lumber, pharmaceuticals, textiles and telephone equipment combined.

IV. PRESSURE ON OTHER NATIONS

A great deal of media coverage recently has been devoted to international economic agreements like the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT). Each have significant intellectual property components built into them. The U.S. government is also conducting bilateral negotiations with several nations, including Japan and the People's Republic of China, seeking changes in their intellectual property laws. Why all this effort by our government, especially in the GATT negotiations, to include intellectual property as a key element of international trade agreements and treaty organizations?

Periodically, on the business page, we read that the U.S. Trade Representative threatens trade sanctions against a foreign nation under so-called "Special 301" or "Super 301" powers. In 1988, Congress created "Special 301," a power given to the U.S. Trade Representative to investigate and identify foreign nations that unjustifiably restrict U.S. Commerce. For example, Special 301 gives the U.S. Trade Representative the power to ensure that foreign nations are adequately protecting U.S. intellectual property.

The Trade Representative can start a long, involved process that could eventually result in the imposition of trade sanctions by the President. These sanctions might include placing confiscatory duties on certain goods imported into the United States from the offending nation. Such sanctions are almost like a nuclear deterrent in the world trade war. To my knowledge, the United States has never actually imposed sanctions for failure to give adequate protection for intellectual property, although it has threatened to do so against the People's Republic of China on more than one occasion.

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Our government seeks to put pressure on other governments, especially those in Asia, to raise the level of their intellectual property protection and enforcement. But why should Americans care whether the People's Republic of China winks at piracy of computer programs and compact discs?

We care because if no intellectual property protection exists regarding technical and entertainment information, then we have little to sell to the rest of the world. In the old days of selling cars, steel, and aluminum to the rest of the world, the kind of patent, trademark and copyright laws implemented by other nations did not make a lot of difference. Their intellectual property laws were their business. Now it is our business.

American businesses suffer the most when an Asian government tolerates the widespread pirating of computer programs and CDs and the Asian market becomes flooded with pirated products. This occurs because America supplies the bulk of the world's software and music, as well as video tapes. While the Asian nations produce most of the hardware used in the entertainment and computer industries, such as televisions, CD players, and PC clones, America supplies the content for that hardware—the shows, songs, and software that makes the hardware valuable. If foreign nations do not recognize or enforce intellectual property laws, then America has nothing to sell. . .

If an American company sells only a few copies of a computer program or video because social customs permit widespread reproduction, then much less incentive exists to produce the product in the first place. Fewer copies will be

produced and fewer Americans will be hired to produce those copies. In the information age, ineffective intellectual property protection and enforcement results in less protectable material produced. This phenomenon bodes poorly for the future of the United States, because we cannot compete in a world market for producing steel or clothes or VCRs when manufacturers in developing nations can pay what we would regard as a less than living wage. That leads to cries for protectionist legislation like trade barriers and tariffs.

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VI. DEMANDS OF FOREIGN TRADE DRIVE CHANGES IN UNITED STATES LAW

A new phenomenon in U.S. intellectual property law is that changes in our domestic law are being driven by the needs of world trade. For the first 200 years of our nation's history, we very loosely based our intellectual property laws on those of Great Britain. As the years went by, however, our laws became more and more idiosyncratic. Our intellectual property laws developed so differently from those of the rest of the world that they became a real impediment to free trade.

For example, we are still the only nation in the world to have a "first to invent" rule in our patent system to resolve situations in which more than one person claims to have created the same patentable invention. In the United States, the inventor who was first to invent the invention—not the first to file a patent application—is the owner of the patent. This rule requires an elaborate procedure called an "interference." The purpose of interference proceedings is to reveal who was first to conceive of and reduce the invention to practice. Interference proceedings will become even more elaborate now that GATT has been implemented in U.S. law. Among other changes, GATT expands the range of possible locations in which inventive activity counts towards priority to include activity that occurs within any of the World Trade Organization member countries.

In 1989, the United States changed to an intent to use trademark application system because we were the only nation in the world clinging to the notion that you had to use your trademark before you could apply to register it. We changed to a trademark registration system in which the merchant had an option and could choose to file the old way or the new way—via an "intent to use statement" prior to any use whatsoever of the designation intended to be used in the future as a trademark. Today, nearly half of all trademark applications are filed under the new intent to use system.

Similarly, until 1989 the United States was almost the only nation in the world to require that all distributed copies of software be marked with copyright notice—the name, date and an encircled "c." If this technicality was not observed, the author or computer programmer lost the copyright. This highly technical requirement was not removed until 1989 when the United States became the last developed nation to join the Berne Union, the premier international copyright treaty organization.

Several recent changes in U.S. law were also required by the NAFTA and GATT agreements. All of these changes were driven by the need for harmonizing the United States' laws with those of our trading partners. No major trading nation in today's world can enjoy the indulgence of having intellectual

property laws significantly different from those of the world community. In one sense, unusual intellectual property laws are a tariff and an unnatural barrier to world trade.

VII. INTELLECTUAL PROPERTY LAWS TRY TO KEEP UP TO DATE

Our present intellectual property laws are having trouble keeping up with the accelerating pace of innovation. . . .

In the trademark area, technology makes counterfeiting easier than ever, making the war on trademark counterfeiting harder than ever. It is estimated that world-wide losses to U.S. firms from counterfeiting are approaching $75 billion. Counterfeiting of status marks for luxury items, like fake Rolex watches, is not the real problem. The real counterfeiting problem is fake drugs and defective industrial parts.[1] Almost nine out of every ten fasteners, such as bolts and screws, used in the United States are imported, and it is estimated that more than six of every ten fasteners are counterfeit. Even more threatening are the counterfeit and ineffective drugs and pharmaceuticals that have caused hundreds of deaths in developing nations.

Looming on the horizon in the copyright field is the impact of the much discussed information superhighway. What will be its effect on the ability to charge for reproduction and display of copyrighted works? Millions of people are plugging into electronic networks such as Internet, which connects your personal computer with any other computer in the world. This means that you can send any computer program, anything in print, or any picture, on the "net." The item can be put on an electronic bulletin board, where anyone, anywhere in the world, can download it. How can you charge for the use of such copying and how can you even know copying has taken place? This puts copyright law right in the middle of cyberspace.

As computers plug into the global net and so-called cyberspace, the physical containers in which we are used to seeing information bottled up—like floppy disks and CD-ROMS—may become obsolete. Once that happens, all products of the information age, from books to films to computer programs, will exist as speeding electrons dancing around the world on the computer net. Where do we put the copyright turnstile on the global computer network in order to charge users and copiers?

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VIII. CONCLUSION

Now the United States prepares to enter the information age and the twenty-first century, where intellectual property will be more important than property in land, buildings or objects. This will be an age in which the most important exports of the United States will be information and the means to control it, store it, and access it.

This will be an age in which all information will be broken into digital bits and sent back and forth around the world to be read on computer screens from Singapore to Chicago to Moscow. But who will thrive and prosper from this torrent of information zipping around the world? Like every other age throughout history, this will be an age of "haves" and "have nots." There will be

those who have the knowledge and ability to control and access data and those who do not. There will still be plenty of piecework and manufacturing jobs, but they may be low-paying and located mainly in whatever nation is just emerging from its feudal, pre-industrial state of development.

As we read in the newspapers every day, it seems that while half the world is rushing to embrace the post-industrial information age, the other half seems to be sliding back into a medieval horror of cruel despotic governments, bloody ethnic civil war, widespread famine and killer epidemics. In part, it is a result of the information age that we are made so much aware of what happened this morning in Somalia or Rwanda or Bosnia. With hand-held videocameras, ubiquitous satellite disks and CNN, visual images appear almost instantaneously. Will the information age help or hurt efforts to solve age-old problems such as war and famine? We can only hope that greater world education, increased efficiency in agriculture and food storage and developments in medical research can help. None of this, however, will make people behave like angels. Only the politicians promise panaceas.

As we enter the information age, both we and the world intellectual property system will have to change and adjust to new realities. Paradoxically, the world is getting bigger and smaller at the same time. The world is getting bigger because its population, now almost 5.7 billion, is growing at a record pace of more than ninety million persons a year.

At the same time, the world is getting smaller as global communications via computer networks make it easier to communicate and swap huge amounts of information. There is no doubt that in this new world, intellectual property must, and will, grow in importance. Intellectual property is the law's recognition that information is property—and we all know that property is power.

NOTE

The development that begins Professor McCarthy's essay has recently been repeated. On October 26, 1999, the editors of the Wall Street Journal (who select the stocks that comprise the Dow Jones Index) announced that in order to make the Dow Jones Index "even more representative of the evolving U.S. economy," the Index would no longer include the oil company Chevron, the retail chain Sears Roebuck, the chemical company Union Carbide, and Goodyear Tire and Rubber Co., but instead would include Intel, Microsoft, Home Depot (the specialty retailer), and SBC Communications, one of the regional Bell phone companies. *See* Floyd Norris, *Dow Takes On a New, High-Technology Look*, Oct. 27, 1999, N.Y. TIMES at C1 (noting that "until 1997, the Dow had just one large computer technology company, IBM. Then it added Hewlett-Packard, and now it is adding Microsoft, the dominant personal computer software company, and Intel, the leading maker of semiconductor chips for such computers").

INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE

Report of the Working Group on Intellectual Property Rights 117-119
(U.S. Dept. of Commerce 1995)

At the February 1995 G-7 Ministerial Meeting on the Global Information Infrastructure (GII), the Ministers noted that unless rules for the effective protection of intellectual property are taken into account from the outset, the development of the international information superhighway will be severely hindered. How disparate domestic information infrastructures will evolve into a GII will depend on the rules of the road, and one of the most important sets of rules will be those ensuring protection for the works of intellectual property that move through international channels and into the emerging national information infrastructures. As a result, Ministers endorsed the need to work in international fora, including the World Intellectual Property Organization (WIPO), to achieve standards for the adequate and effective protection of intellectual property in international electronic commerce.

Development of the GII will make copyright laws and international copyright rules a concern for every user. When the globe is blanketed with digital information dissemination systems, a user in one country will be able to manipulate information resources in another country in ways that may violate that country's copyright laws. Indeed, it may be difficult to determine where and when possible infringements may take place because, under the present level of development, a user in France can access a database in the United States and have a copy downloaded to a computer in Sweden. Whose copyright law would apply to such a transaction? Because copyright laws are territorial, and the standards of protection embodied in the international conventions leave room for national legislative determinations, acts that may constitute infringement in one country may not be an infringement in another country. The complexity that such a system creates will make "electronic commerce" over the information superhighways difficult unless the United States moves promptly to identify needs for protection and initiates efforts to work toward a new level of international copyright harmonization.

U.S. copyright industries are significant contributors to the United States' current trade accounts, reducing our balance of payments deficit by some $45.8 billion in 1993. Inadequacies in the present system of intellectual property protection for copyrights and neighboring or related rights, and the consequent losses to these industries from piracy and from trade barriers arising from differences in forms of protection, have been estimated by industry to cost them $15 to 17 billion annually. Improved protection for copyrights and neighboring rights would contribute to reducing these losses and improving the balance of payments.

An important aspect of the participation of foreign entities through a GII in the U.S. domestic information infrastructure is the provision of adequate and effective intellectual property protection in the country wishing to participate. To the extent that participation in the NII (National Information Infrastructure) can be linked to the provision of intellectual property protection, it will promote the ability of U.S. businesses to use the NII and the GII to disseminate works to

foreign consumers via other countries' information infrastructures. If commercial enterprises are to make full use of the capabilities of the NII to communicate and deliver information and entertainment products, there must be assurances that their intellectual property rights will be protected effectively under strong copyright laws in all countries participating in a GII.

In considering linkages, careful consideration will have to be given to obligations under international intellectual property treaties and other international agreements, such as the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) Agreement on the Trade-Related Aspects of Intellectual Property (TRIPS Agreement), especially in view of the various intellectual property and market access provisions in those agreements.

Graeme B. Dinwoodie, THE INTEGRATION OF DOMESTIC AND INTERNATIONAL INTELLECTUAL PROPERTY LAWMAKING
23 Colum.-V.L.A. J.L. & Arts 305 (1999)[*]

It is increasingly impossible to analyze intellectual property law and policy without reference to international lawmaking. That is not, however, merely because several recent domestic reforms have been prompted by international developments.[2] Indeed, because of significant U.S. influence in the formation of contemporary intellectual property treaties, U.S. law has undergone less change than most in order to comply with newly-assumed international obligations. Nor is it merely because, in an era of global trade and technological advances, a state is unable effectively to regulate economic activity on its own. Rather, the need for a broader awareness flows most directly from the integration of the international and domestic lawmaking processes.

Consider this historical example. As nations met in Berlin in 1908 to revise the Berne Convention, the United States received an invitation to attend "with full freedom of action." Instead, however, the Register of Copyrights attended only as an observer. The reason might now seem unduly quaint.

> [T]he Register of Copyrights] explained to the Conference that the United States found it impractical to send a delegate authorized to commit it to actual adhesion to the Berne Convention since some of the questions to be discussed there were pending before the Congress and premature action at the Convention might embarrass the legislative branch of the Government.[3]

Today, in contrast, there is a conscious blending of domestic and international lawmaking. International lawmaking demands attention to Washington; and domestic lawmaking cannot be conducted without regard for what is going on in Brussels, Geneva, Tokyo and elsewhere. Indeed, in some areas of intellectual property, we may be moving toward a single lawmaking process that embodies a series of complex relations among national, regional and global institutions and laws.

Within the United States, this biplay between national and international

fora—in particular, between executive branch activity at the international level, and legislative activity in Congress—has been treated by some with a certain suspicion. This interaction is, however, essential in a global age. And it should not be disconcerting. The Constitution sets out a process for concluding and ratifying treaties, and a separate process for enacting legislation. Each mechanism has its own limits. It would be somewhat surprising if each branch of government did not use the leverage with which it is endowed by the constitutional scheme. In any event, this blending or integration of lawmaking is a political reality of which we must take account in our assessment of how intellectual property law is made. . . .

Ruth L. Gana, HAS CREATIVITY DIED IN THE THIRD WORLD?
SOME IMPLICATIONS OF THE INTERNATIONALIZATION OF INTELLECTUAL PROPERTY

24 Denv. J. Int'l L. & Pol. 109 (1995)

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[A]ll forms of creative expression—mechanical, literary, or artistic—are value driven. The nature and variety of goods produced in any society is, initially, a function of needs as the popular adage "necessity is the mother of invention" attests. More important, however, the laws which protect these inventions—laws which define what is to be protected and how that protection is to be effected-—reflect the underlying values of a society. Intellectual property law, like other law "is more than just another opinion; not because it embodies all right values, or because the values it does embody tend from time to time to reflect those of a majority or plurality, but because it is the value of values. Law is the principle institution through which a society can assert its values."

Further, the selection of what goods to protect and the nature of such protection is shaped by values and needs in accordance with a society's perceptions of what constitutes "the good life." Nowhere is this more reflected than in the Anglo-American philosophy of copyright protection which seeks to balance private reward and encouragement of creative activity with public benefit of access to a goodly supply of literary works. In Macauley's celebrated 1841 speech in the English House of Commons, the need for copyright was expressed as a matter of value and perceptions of what is needed for a good life. . . . In the United States, Thomas Jefferson's famed letter to Isaac McPherson on the protection of intellectual property reveals a similar understanding of the incidents of the good life and society. . . .

The idea that copyright, as well as other forms of exclusive privileges, was a necessary part of the good society reflects values such as liberty, property, private enterprise, accumulation of capital and rapid consumption; in a word, values that nurture capitalism. . . .

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The modern debate over intellectual property protection in developing countries has failed to take account of cultural differences which affect the understanding of what constitutes property or what may rightfully be the subject of private ownership. . . . [I]t is important for the modern debate to link

intellectual property laws to the social realities of societies in developing countries. Not only may this yield more effective approaches to securing enforcement of intellectual property rights in developing countries, it also presents the possibility that western based intellectual property laws may have some real impact on industrial innovative activity in these countries, thus contributing to the economic welfare of the Third World. However, . . . culture may influence what is created but it is those values, rooted in a conception of a good society, that determine how and what kind of intellectual property laws societies enact.

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SOME IMPLICATIONS

It is quite clear that one of the central motivations behind the TRIPS agreement was to target enforceability of foreign intellectual property rights in developing countries. As such, the global model of intellectual property protection imposed by the agreement is not a reflection of the need to encourage creativity or to promote the public welfare. Rather, the chief aim of the agreement is to secure from these countries and societies the full monopoly benefits that western intellectual property laws offer. The implications of these strategic moves are many . . .

The need to maintain incentives to encourage creative activity is limited, in many respects, to western market democracies. These democracies revolve, in large part, around individual autonomy and liberty, notwithstanding the greater social loss of nonmaterial value that individualism tends to breed. The successful commodification of intellectual goods can only be achieved in a society which embraces this sort of rugged individualism. Until indigenous societies reach this point, the international community may have to come to terms with a persistent level of piracy in international trade. Piracy, however, cannot simply be explained mechanically in economic terms based on the reasoning that poverty necessitates the availability of cheap products. For many of these societies, the difficulty in introducing western copyright principles is that these principles attempt to overturn social values which are centuries old. The laws protecting intellectual goods in these societies simply reflect fundamental notions of what the society considers to be the appropriate subject of exclusive ownership. The duplication of literary work is thus, for example, not perceived as stealing but as making a good thing accessible to the general public. Knowledge in many indigenous societies is not perceived as something that can be commodified or objectified through law. It is impossible to ignore such fundamental conceptions in these communities.

In addition to responding to a persistent level of piracy, the internationalization of intellectual property also suggests that there is some way to objectively measure protection of intellectual property. By not taking into account the possibility of alternative forms of protection, the TRIPS agreement, as did its predecessor treaties, presupposes that "all civilized nations" will and must recognize this global model of intellectual property protection. By mandating this model, governments in developing countries are faced with the difficult job of destroying, or at least attempting to destroy, native conceptions

about life and living and about what constitutes an ordered society. The allocation of material value to goods, and the way in which this value is expressed, is grounded firmly in the history of the evolution of a people. The internationalization of intellectual property threatens to undermine, if not totally destroy, the values that indigenous systems ascribe to intellectual property and the manner in which they allocate rights to intellectual goods.

What the internationalization of intellectual property implies, ultimately, is that there is only one way to participate in the international economy and that is by playing in accordance with prescribed rules, regardless of its impact on a group of peoples. It is a message that is not unfamiliar in the history of world affairs, and yet it is a message which, so history informs us, has caused devastation of unimagined proportions to human society. The next few years will reveal just how far native peoples, indigenous groups, and developing countries will fare in the preservation of their cultural patrimony and in their ability to determine the identity of their group in an increasingly hostile international economic environment.

P. John Kozyris, COMPARATIVE LAW FOR THE TWENTY-FIRST CENTURY: NEW HORIZONS AND NEW TECHNOLOGIES
69 Tul. L. Rev. 165, 167-178 (1994)*

COMPARATIVE LAW HERE AND NOW

Before gazing at the crystal ball, I will articulate three noncontroversial propositions about the here and now of comparative law; and before investigating the new horizons of comparative law, I will review the impact of new technologies.

My first proposition is that the utility of the comparative method is beyond dispute. Comparative law not only provides alternative solutions to be used in legal reform but also gives us a better understanding of our existing law. In short, it is an indispensable tool of legal science. In addition, the internationalization of transactions and the increasing applicability of foreign law make comparative law an indispensable tool of the legal practitioner.

In 1951, Professor Ferdinand Stone told a story which rings true now more than ever. The story was about a man who traveled “from place to place upon the earth.”

> [W]herever he went he would pick up bricks and compare them carefully one with another. His conduct excited comment. One man said, "he must be seeking the most perfect of all bricks." Another said, "he must be seeking to describe the qualities inherent in all bricks." Still another of a practical turn of mind said, "he is probably seeking a brick of just the right shape and color to fit into his wall." And still another said, "it is possible that he is not interested in the bricks as such but in their composition. Perhaps, he would set up a kiln of his own for making bricks.”[4]

My comment is that these are all valid descriptions of the use of the comparative method today.

Any science, theoretical or applied, that would limit itself to one nation would be laughable.[5] Nevertheless, confused by the historical school and cowed by legal positivism, we have developed too parochial a view of legal science. We have lost sight of the fact that law is a universal phenomenon, and not just the temporal product of the lawmaker in a particular society. Common denominators in the human social condition demand a unified legal science. To be sure, a lawyer normally practices within one country and thus must acquire specialized, practical knowledge of local laws.[6] But a lawyer, even in the most mundane practice, will be impoverished if he wears the blinders of his own jurisdiction.

The great reliance on the comparative method in the world today testifies to its validity. In both the contexts of the conglomeration of states, such as the European Economic Community, now the European Union, which has become a vibrant comparative law lab, and of the disintegration of empires, as in the East where massive law reform is taking place, comparative law has proved vital.

In the United States, the best evidence of our recognition of the value of comparative law is that we teach even domestic law by the comparative method. No self-respecting law school teaches merely the laws of its own state. The Brandeisian idea of the states as law labs is deeply ingrained. Why do we teach in this manner even when many of the students are likely to practice in-state? The comparative method is a natural in America because we typically teach through fact patterns and cases, not statutes. We reward students not so much for right answers as for seeing as many angles as possible and for arguing in every plausible policy direction, which necessitates transcending the boundaries of any one jurisdiction.

The main reason why we do not use much truly foreign law rather than sister-state law in our teaching is logistical, not conceptual. We face serious linguistic and cultural obstacles. Besides, there already exists too much material to cover from the United States materials alone. Yet, we are missing an important dimension by just keeping to one nation, however big and diverse it may be.

My second, and rather obvious point, is that you cannot truly pursue the comparative method through the study of formal legal texts alone. It is necessary to get to know what is behind the texts and also, even more important, how they function. This requires understanding the legal culture that produced the laws, and more broadly, the social and economic structures and the ethical and political values that support them. Laws cannot be grasped in an idealized form outside the context of the society that created them. Before a legal model can be transplanted, the conditions in the two societies—the one from which it comes and the one to which it goes—must be taken into account. To be sure, the more similar the societies, the less the need to engage in elaborate socio-legal studies. Eventually, the global village created under industrialization, urbanization, and the homogenizing influence of the global mass media may reduce such need even further. But we still have a long way to go before we can assume compatibility.

My third and final point on the here and now of comparative law is that, in the last half century or so, comparative law has exhibited remarkable stability within the United States and abroad. . . . [W]ith one apparent and one real exception, . . . the fundamentals of comparative law have not changed much in

our times.

The apparent change relates to the growing literature from outside the United States and Western Europe, especially from Asia and Africa, as well as from some formerly communist nations. It would thus appear that comparative law is moving from eurocentric to global. There is some truth to this perception, but it is important to see it in the proper light. For example, close to half of the space in the first two issues of this year's American Journal of Comparative Law is devoted to judicial review in Korea and Poland, the Korean press law, the notion of legal personality in China, and legal thinking in Micronesia. Yet, with the exception of the last piece, the discourse is conducted with the traditional tools of the western legal tradition. Even the Micronesian article represents an exercise in western legal realism. What has happened, I believe, and this is starkly evident in Eastern Europe, is that the western legal tradition has spread all over the developed and developing world under the rubric of modernization. In the process, the western tradition has undoubtedly been enriched by other legal cultures. However, it remains dominant and, if anything, is becoming universal.

The real change relates to the shift of the center of gravity from private law and formal criminal law to public and regulatory law. The reasons why modern comparative law originally focused on private themes are rather clear. The great Roman law tradition, systematized and refined by legal science over the centuries, exploded into an array of comprehensive private law codes. These codes were not only detailed and stable but also traced their pedigree to reason, making them ideally suited to textual comparison and to the pursuit of erudite distinctions and penumbral nuances. By contrast, public and regulatory law was seen not only as more rough, raw, and untidy, but also as more positive, expressing the will of the sovereign, and more temporal, connected to the volksgeist of particular places and periods.

The centrality of public and regulatory law, however, has never been questioned. As the nations of the world, especially after World War II, were seeking their way in constitutionalism and liberal democracy, comparative constitutional law, starting with judicial review and expanding into political, civil, and human rights, attracted a lot of attention. With both the formation and disintegration of composite states, such as the European Union and the Soviet Union, comparative federalism has become a hot, complex, and fascinating topic. In the economic sphere, antitrust and, more recently, environmental law have also claimed their place under the sun of comparison.

In fact, comparative work in public law is more difficult because it requires not only technical expertise but also the ability to delve into policy issues in diverse social contexts. But the more that the conditions in the world become homogenized, the more the organization of power within societies falls into typical patterns, and the easier it becomes to control the variables necessary to use the comparative method fruitfully.

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NEW TECHNOLOGIES

In switching the discussion from the here and now of comparative law to new horizons for the twenty-first century, let me say a few words about the

implications of new technologies. Printed materials on foreign law, especially in the English language, have become available at a fast pace. . . .

The most remarkable revolution in technology, however, has occurred in electronics. We all know how Lexis and Westlaw have dramatically changed the modes and speed of domestic legal research. In the comparative field, together with the Internet, Lexis and Westlaw are also doing quite a lot. First, they provide instant access to foreign materials in English, which are otherwise difficult, if not impossible to find, especially in updated form. Second, Lexis has crossed the language barrier, giving us numerous materials in French. Other languages, at least those using the Latin alphabet, could easily be added. Third, the Internet not only provides access to specialized library catalogues but also enables faculty and other law professionals to communicate, form discussion groups, and share their ideas all over the world. And this is only the beginning. Before the end of the twentieth century, let alone the next century, these services will grow exponentially and their cost will decline. Foreign law information will be at every lawyer's fingertips, and most of it will be in the new lingua franca, English.

It is also very important to note that Lexis and Westlaw are not merely opening doors to information. As they become dominant worldwide, they set the standards for law retrieval along the patterns of the common law system, especially the American one, which relies heavily on key words and factual similarities rather than on statutory texts or conceptual analysis. As lawyers in other nations learn to use these services, they are bound to be influenced by the subtle shift in legal method from civilian deduction to common law induction.

NEW HORIZONS

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Let me conclude by briefly outlining my main points. Comparative law is now technologically easier, has crossed over from the private into the public domain, and is needed now more than ever because of the expansion of international transactions; the globalization of legal culture; and the movements for unification, federation, and law reform around the world. Pedagogically, comparative law can benefit by focusing on international transactions, such as by presenting the foreign element in the natural habitat of a cross-border deal, and by enriching itself from jurisprudence. In the twenty-first century, the United States would be well served if it were to make a public commitment to promote the scientific study of law, not only for the sake of study, but also to insulate our laws from the influence of special interests and to make them more systematic, consistent, and technically expert. . . .

William L. Keefauver, THE NEED FOR INTERNATIONAL THINKING IN INTELLECTUAL PROPERTY LAW

37 IDEA 181 (1996)*

In the late 1930's, Senator Arthur Vandenberg of Michigan was one of the leading isolationists in the U.S. Senate. But toward the end of the decade, as

events in Europe were beginning to overtake us, he made a sudden conversion and became an internationalist. Because Senator Vandenberg was highly respected in foreign policy, I naively thought that this marked the end of isolationism. I was obviously a little premature, however, because even today we continue to hear proponents of isolationism, including a recent candidate for President of the United States.

My focus here, however, is intellectual property, not politics. Intellectual property specialists from long before Senator Vandenberg have had to practice in the international field, making it essential for them to understand the laws and practices of many countries. But in those days, intellectual property specialists were what I would call "multinational" lawyers rather than international lawyers due to the lack of congruency between the laws of the different countries.

In the 1970's, a strong trend toward globalization of markets began. This trend was stimulated not only by advances in telecommunications, but also by the desires of suppliers to seek additional sources of revenue beyond their borders. Others found it necessary to counterattack by entering the home markets of these new foreign competitors. Simultaneously, the sometimes significant differences around the world in intellectual property protection began colliding with each other as companies formed business ventures across national lines. It then became important to see whether these friction points could be reduced.

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[I]t is market forces, not intellectual property lawyers, which have globalized the practice, and it is up to us as practitioners to make globalization work for our clients. With a focus on our clients, we must work to reduce some of the friction points by working for beneficial changes in conflicting laws and by becoming sufficiently knowledgeable of the laws and practices of other countries.

Some of these changes are being accomplished multilaterally through harmonization negotiations which attempt to bring the laws to a common base. Another type of multilateral effort is the recent GATT (General Agreement on Tariffs and Trade) revision which includes a significant chapter on setting minimum standards for protecting and enforcing intellectual property rights. This chapter, known as TRIPS, promises to be as significant in its time as was the Paris Convention being the very first step in internationalizing intellectual property. Beneficial change is also being accomplished bilaterally on a country by country basis. These various efforts have led to many new treaties in the last dozen or so years as well as to modifications of existing treaties with more globalizing efforts in the works.

Like many U.S. companies, my company, AT&T, had a domestic patent attorney group which focused on the United States and a foreign group to deal with other countries. However, it was during the period since the 1970's that I became aware of the globalization trend. I was also convinced that in order to represent client interests adequately, it was no longer sufficient for lawyers working in the United States to think of themselves solely as U.S. practitioners. So I announced a new paradigm for AT&T: henceforth, there would be no such dichotomy; every lawyer would be a global lawyer and have to become sufficiently knowledgeable to deal with the patent laws of all countries in which the corporation was interested.

This new paradigm meant worldwide patent prosecution responsibility. Also, when helping clients develop intellectual property strategies, the new global lawyer would do so from a worldwide perspective. Although I felt I was announcing a "sea of change," it met with little resistance. It had become obvious that we could no longer live on our own little island of U.S. law and claim to be providing adequate client representation. We simply had to know what was happening throughout the world.

Much of AT&T's globalization was driven by joint venture activity. Like many other companies, AT&T found that the only way to enter certain foreign markets was through joint ventures with local firms. If you have ever negotiated or looked at a joint venture agreement, you know that a major component is often the intellectual property piece which usually covers patents, trademarks, copyrights, software, and technical information. Quite often, a joint venture agreement has rights flowing to and from many countries. It takes a lot of creativity to reach agreement and usually involves negotiations by lawyers and businesspeople from several countries.

The intellectual property lawyers almost inevitably get involved in the business aspects of the deal since the allocation of rights often depends on the structuring of the work agreement and vice versa. Significantly, these negotiations are truly negotiations and are quite different from those of previous decades when a U.S. company could simply dictate the terms. All of this has not only been instructive, but also very helpful in broadening the perspectives of practitioners accustomed to thinking only of U.S. law.

Some of our U.S. colleagues continue to feel that to think internationally or to talk about compromise and change in U.S. law is to somehow put the United States in second place. My view is very clearly the opposite. Thinking internationally does not put the U.S. in second place. Rather, you have to think internationally to put the United States and your company or client in first place.

Certainly, all aspects of intellectual property now have a global dimension. Fortunately, we have been able to harmonize some of the more serious differences in copyright law as well as trademark law, and to some extent, patent law. These harmonization efforts, taken with the TRIPS agreement, should make it even more natural to think of intellectual property in international terms. Lawyers who do not think in these terms simply are not fulfilling their duties to their clients.

In a global market place there is little room for isolationism, and it is clear that our clients are thinking in international terms. We, as intellectual property lawyers, must have the same frame of reference as our clients to adequately and ethically support them.

NOTES AND QUESTIONS

1. The term “globalization” is frequently used to describe some of the contemporary phenomena discussed in the preceding excerpts. What does this (probably over-used) term mean? What is causing these changes in legal practice, economic priorities, lawmaking, and scholarly inquiry? Do the descriptions of social, political and economic change offered in these excerpts capture all the causes of globalization? Do they consider all the effects? To

what extent should we critique the reasons for these changes, or should we simply address their consequences? What is the role of intellectual property law, or intellectual property lawyers or policymakers, in the midst of these changes? Are you persuaded by Keefauver's distinction between intellectual property law and politics? Is it the role of lawyers "to make globalization work for our clients"?

2. Some writers have suggested that the globalization that we are experiencing today is not the first such development. *See, e.g.*, Nicholas D. Kristof, *The World: A Better System in the 19th Century?: At This Rate, We'll Be Global in Another Hundred Years*, N.Y. TIMES, May 23, 1999 at 5 col.1 (reporting that labor and capital were both more mobile in the late nineteenth century). The social and economic developments of the past twenty years are different, however, from the globalization of the late nineteenth century. The burgeoning free trade of the late nineteenth century consisted mostly of commodities rather than manufactured goods; capital investments then were more likely to be long term in nature. As we enter the twenty-first century, our focus is on intellectual property rights. How is a society faced with (and, in different degrees, committed to) free global trade in intellectual property likely to differ from the late nineteenth century model? As you read the materials, consider what effect these differences should have on the priorities that intellectual property law should establish. Professor McCarthy suggests that Microsoft founder Bill Gates may be "one of the most influential people in America today." Why might that be the case? To what extent does ownership of intellectual property confer more influence or power in modern society than ownership of tangible property? What characteristics of intellectual property explain its social, economic and political significance? Which of its characteristics have forced policymakers to address intellectual property law on the international stage? Are there considerations other than the inherent characteristics of intellectual property that have driven efforts to address intellectual property internationally? What might those external forces be? Do you agree with Professor McCarthy's assessment that "if foreign nations do not recognize or enforce intellectual property laws, then America has nothing to sell"?

3. What are the costs and benefits of intellectual property laws differing from country to country? Does this depend upon the nature of the differences? Which differences are likely to produce net gains, and which ones are likely to produce net costs? In which circumstances is internationalization most warranted or most necessary? Are there circumstances in which possibly divergent national approaches might be necessary, or even desirable? Who benefits from international standards of intellectual property law?

4. How universal are the concerns articulated by McCarthy and Keefauver? What are the premises upon which these writers found their vision of intellectual property? A noted economist who is a wholesale critic of the intellectual property system argues that "the idea that people should be paid to be creative is a point of view that stems from the Judeo-Christian and Muslim belief in a God who created humankind in His image. It has no analogue in Hindu, Buddhist, or Confucian societies. There are real differences in beliefs about what should be freely available in the public domain and what should be for sale in the

private marketplace." Lester Thurow, *Needed: A New System of Intellectual Property Rights*, HARVARD BUSINESS REVIEW 95, 100 (Sept. 1997); *see also* DAVID F. NOBLE, THE RELIGION OF TECHNOLOGY, PART I (1999). Is establishment of a strong intellectual property system in a country which has a non-Western cultural and religious heritage necessarily an indication that it is becoming Westernized, or becoming "modernized"? Are there any differences between modernization and Westernization? Is the Western paradigm becoming universal, as Professor Kozyris suggests?

5. What does Keefauver mean by "thinking internationally"? Is that what Professors McCarthy, Dinwoodie, Kozyris and Gana are doing? What would be the consequences of American "isolationism" in the field of intellectual property law? Political commentators have noted that there are two different forms of isolationism: one "rests partly on a fearful assessment of America's ability to compete in a global economy. The other derives not from . . . insecurities . . . but, conversely, from a supreme self-confidence that America can go it alone, that its wealth and military power make international treaties unnecessary." *Isolationism's Return*, N.Y. TIMES, Oct. 31, 1999 at WK14. To what extent does either of these isolationist philosophies carry weight in determining the policy that the United States should adopt toward international intellectual property relations? Are there dangers in too effusive an embrace of international lawmaking? Two prominent scholars have noted that:

> "[H]ow radically the world intellectual property policymaking arena has changed in the last several years. In this climate, it is literally possible for an as yet unimplemented legislative initiative of one government to become an international minimum standard for other governments before most people affected by it . . . even know that proposals for new intellectual property rights have been put on the table."

J.H. Reichman and Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 VAND. L. REV. 51, 76 (1997).

Several U.S. academic commentators have bemoaned the extent to which national legislatures in developed countries have been captured by industries seeking higher levels of intellectual property protection. Even before we consider these international lawmaking institutions in detail, would you expect special interests to have more or less influence in an enlarged and more multifaceted lawmaking process (involving, as we will see, foreign legislatures, international intellectual property institutions such as the World Intellectual Property Organization, treaty negotiators, trade representatives, and dispute panels convened under the aegis of the World Trade Organization) than before the U.S. Congress? What information would you want to know to answer this question?

6. Civil law systems are generally founded on extensive statutory statements (normally, codifications) of the law, and these form the basis for judicial analysis. Civil law systems thus do not generally use a system of case law precedent where courts are *bound* to follow rules announced in certain earlier decisions. Courts in civil law countries are, however, generally influenced by prior decisions. Although earlier cases are not formally a "source of law," they naturally form part of the legal debate regarding the appropriate resolution of similar disputes. Courts in civil law countries aim to decide like cases alike, and

they recognize the reality of the parties' appealing to higher courts that may have rendered the earlier decisions. Moreover, some civil law systems adhere to a philosophy of *jurisprudence constante*, under which a pattern of similar like decisions justifies the application of a constant rule. This philosophy requires a series of decisions before the reasoning underlying those decisions holds sway with later courts; a common law system of binding precedent gives greater weight to single decisions of courts of a particular level. But opinions in civilian systems are framed less formally by the need to consider prior decisions. This should be borne in mind in reading certain non-U.S. cases. (Decisions of courts in common law countries other than the United States may also be structured differently, for other reasons.) The concept of binding precedent develops most easily in legal systems where significant case law develops, and where there is routinized and accessible reporting of that case law. What other requirements are essential in order to employ a system of binding precedent? In what ways, other than contributing toward a system of binding precedent, might decided case law be used to further important public policy objectives?

A leading twentieth century Scottish judge, Lord Cooper, whose position on the highest Scottish court exposed him to a traditionally civilian system with a modern (English) common law influence, described the methodological differences between the civilian and common law systems thus:

> "A civilian system differs from a common law system much as rationalism differs from empiricism or deduction from induction. The civilian naturally reasons from principles to instances, the common lawyer from instances to principles. The civilian puts faith in syllogisms, the common lawyer in precedents; the first silently asking himself as each new problem arises, "What should we do this time" and the second asking aloud in the same situation, "What did we do last time?" . . .The instinct of a civilian is to systematise. The working rule of the common lawyer is *solvitur ambulando*."

Thomas Mackay Cooper, *The Common Law and The Civil Law–A Scot's View*, 63 Harv. L. Rev. 468, 470-71 (1950). Is one of these methodologies inherently more suited to the demands of an international environment? Do you agree with Professor Kozyris that technological developments will result in an international shift toward the common law methodology of induction? Do any of the developments described in these materials suggest countervailing tendencies?

II. INTERNATIONAL LAW AND INSTITUTIONS

A. THE NATURE AND SOURCES OF INTERNATIONAL LAW

The system of nation states as we know it grew slowly over a period of centuries, crystallizing in Western Europe in the mid-seventeenth century with the Peace of Westphalia of 1648, then spread to North and South America first, and to Africa and Asia only later. The term "international law" was coined by Jeremy Bentham in 1789 in his *Introduction to the Principles of Morals and Legislation.* An older term, the "law of nations," from Roman time had referred to a universal law (*jus gentium)*, an ethically determined "law of peoples" or even "law of tribes." Bentham's international law, by contrast, refers to the rules of engagement among nation states, distinguishable from the internal law of any of those states. In common parlance, the internal law of a nation-state is referred to as "municipal" or "local" law. Although the term "law of nations" is used less frequently today, the basic concept remains embodied in part in the term "customary international law."

Few nation states had significantly developed intellectual property laws in place at the beginning of the nineteenth century. Only France, Britain, and the United States had intellectual property law as we now understand the term. The history of international intellectual property cooperation is much more recent, beginning in earnest only during the last three decades of the nineteenth century in the form of written international agreements. By that era, the modern view of international law espoused by Bentham had become the predominant one. In the milieu of the nineteenth century international system, positive international law gained its readiest expression in the form of treaties between nation states; and the expository jurisprudence of the period placed the explicit agreements between nation states in a hierarchy above empirical observations as to customary law between them or logically or ethically derived principles by which nation states should behave.

Consequently, at least until very recently, there has been virtually no evidence that intellectual property rights were thought to be protected by customary international law, and it is doubtful that most states today would accept any assertion that they were obliged to provide and protect intellectual property rights of citizens of other states other than by express agreement in the form of a treaty or statute. An exception may arise through the customary law of treaties, including intellectual property agreements, now codified in the Vienna Convention on the Law of Treaties of 1969. Where an intellectual property treaty exists, it creates obligations that bind the signatories under both customary international law[1] and under the Vienna Convention, notwithstanding that the internal law of the signatory differs from that state's international obligations.

The United States has signed, but not yet ratified, the Vienna Convention. The Convention may, however, be evidence of state practice and thus of international obligations. Indeed, the United States takes the position that the interpretive provisions of the Convention are largely consistent with the interpretive principles of customary international law.

VIENNA CONVENTION ON THE LAW OF TREATIES
May 23, 1969 1155 U.N.T.S. 331 (1969)

Article 26

Every treaty in force is binding upon the parties to it and must be performed by them in good faith.

Article 27

A party may not invoke the provisions of its internal law as justification for its failure to perform a treaty. . . .

Article 31

1. A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.
2. The context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes:
   (a) any agreement relating to the treaty which was made between all the parties in connexion with the conclusion of the treaty;
   (b) any instrument which was made by one or more parties in connexion with the conclusion of the treaty and accepted by the other parties as an instrument related to the treaty.
3. There shall be taken into account, together with the context:
   (a) any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions;
   (b) any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation;
   (c) any relevant rules of international law applicable in the relations between the parties.

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Article 32

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.

RESTATEMENT OF THE LAW (THIRD), FOREIGN RELATIONS LAW OF THE UNITED STATES, § 102*

Sources of International Law

(1) A rule of international law is one that has been accepted as such by the international community of states
  (a) in the form of customary law;
  (b) by international agreement; or
  (c) by derivation from general principles common to the major legal systems of the world.

(2) Customary international law results from a general and consistent practice of states followed by them from a sense of legal obligation.

(3) International agreements create law for the states parties thereto and may lead to the creation of customary international law when such agreements are intended for adherence by states generally and are in fact widely accepted.

(4) General principles common to the major legal systems, even if not incorporated or reflected in customary law or international agreement, may be invoked as supplementary rules of international law where appropriate.

Comments and Illustrations

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b. *Practice as customary law.* "Practice of states," Subsection (2), includes diplomatic acts and instructions as well as public measures and other governmental acts and official statements of policy, whether they are unilateral or undertaken in cooperation with other states, for example in organizations such as the Organization for Economic Cooperation and Development (OECD). Inaction may constitute state practice, as when a state acquiesces in acts of another state that affect its legal rights. The practice necessary to create customary law may be of comparatively short duration, but under Subsection (2) it must be "general and consistent." A practice can be general even if it is not universally followed; there is no precise formula to indicate how widespread a practice must be, but it should reflect wide acceptance among the states particularly involved in the relevant activity. Failure of a significant number of important states to adopt a practice can prevent a principle from becoming general customary law though it might become "particular customary law" for the participating states. [cit]. A principle of customary law is not binding on a state that declares its dissent from the principle during its development. [cit].

c. *Opinio juris.* For a practice of states to become a rule of customary international law it must appear that the states follow the practice from a sense of legal obligation (opinio juris sive necessitatis); a practice that is generally followed but which states feel legally free to disregard does not contribute to customary law. A practice initially followed by states as a matter of courtesy or habit may become law when states generally come to believe that they are under a legal obligation to comply with it. It is often difficult to determine when that transformation into law has taken place. Explicit evidence of a sense of legal obligation (e.g., by official statements) is not necessary; opinio juris may be inferred from acts or omissions.

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e. *General and special custom.* The practice of states in a regional or other special grouping may create "regional," "special," or "particular" customary law for those states inter se. It must be shown that the state alleged to be bound has accepted or acquiesced in the custom as a matter of legal obligation, "not merely for reasons of political expediency." [cit]. . .

f. *International agreement as source of law.* An international agreement creates obligations binding between the parties under international law. [cit]. Ordinarily, an agreement between states is a source of law only in the sense that a private contract may be said to make law for the parties under the domestic law of contracts. Multilateral agreements open to all states, however, are increasingly used for general legislation, whether to make new law, as in human rights . . . or for codifying and developing customary law, as in the Vienna Convention on the Law of Treaties. . . . International agreements may contribute to customary law.

g. *Binding resolutions of international organizations*. Some international agreements that are constitutions or charters of international organizations confer power on those organizations to impose binding obligations on their members by resolution, usually by qualified majorities. Such obligations derive their authority from the international agreement constituting the organization, and resolutions so adopted by the organization can be seen as "secondary sources" of international law for its members.

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i. *International agreements codifying or contributing to customary law*. International agreements constitute practice of states and as such can contribute to the growth of customary law under Subsection (2). [cit]. Some multilateral agreements may come to be law for non-parties that do not actively dissent. That may be the effect where a multilateral agreement is designed for adherence by states generally, is widely accepted, and is not rejected by a significant number of important states. A wide network of similar bilateral arrangements on a subject may constitute practice and also result in customary law. . . .

j. *Conflict between international agreement and customary law.* Customary law and law made by international agreement have equal authority as international law. Unless the parties evince a contrary intention, a rule established by agreement supersedes for them a prior inconsistent rule of customary international law. However, an agreement will not supersede a prior rule of customary law that is a peremptory norm of international law; and an agreement will not supersede customary law if the agreement is invalid because it violates such a peremptory norm. *See* Comment k. A new rule of customary law will supersede inconsistent obligations created by earlier agreement if the parties so intend and the intention is clearly manifested. . . .

k. *Peremptory norms of international law (jus cogens)*. Some rules of international law are recognized by the international community of states as peremptory, permitting no derogation. These rules prevail over and invalidate international agreements and other rules of international law in conflict with them. Such a peremptory norm is subject to modification only by a subsequent norm of international law having the same character. It is generally accepted that the principles of the United Nations Charter prohibiting the use of force [cit]

have the character of jus cogens. . .

l. *General principles as secondary source of law.* Much of international law, whether customary or constituted by agreement, reflects principles analogous to those found in the major legal systems of the world, and historically may derive from them or from a more remote common origin. [cit]. General principles common to systems of national law may be resorted to as an independent source of law. That source of law may be important when there has not been practice by states sufficient to give the particular principle status as customary law and the principle has not been legislated by general international agreement. . . .

Reporters' Notes

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2. Customary law

No definition of customary law has received universal agreement, but the essence of Subsection (2) has wide acceptance. [cit]. Each element in attempted definitions has raised difficulties. There have been philosophical debates about the very basis of the definition: how can practice build law? Most troublesome conceptually has been the circularity in the suggestion that law is built by practice based on a sense of legal obligation: how, it is asked, can there be a sense of legal obligation before the law from which the legal obligation derives has matured? Such conceptual difficulties, however, have not prevented acceptance of customary law essentially as here defined. . . .

Earlier definitions implied that establishment of custom required that the practice of states continue over an extended period of time. That requirement began to lose its force after the Second World War, perhaps because improved communication made the practice of states widely and quickly known, at least where there is broad acceptance and no or little objection. In *North Sea Continental Shelf Cases*, the International Court of Justice agreed that "the passage of only a short period of time is not necessarily, or of itself, a bar to the formation of a new rule of customary international law." [1969] I.C.J. Rep. 3, 44.

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The practice of states that builds customary law takes many forms and includes what states do in or through international organizations. [cit]. The United Nations General Assembly in particular has adopted resolutions, declarations, and other statements of principles that in some circumstances contribute to the process of making customary law, insofar as statements and votes of governments are kinds of state practice, [cit], and may be expressions of opinio juris. [cit]. The contributions of such resolutions and of the statements and votes supporting them to the lawmaking process will differ widely, depending on factors such as the subject of the resolution, whether it purports to reflect legal principles, how large a majority it commands and how numerous and important are the dissenting states, whether it is widely supported (including in particular the states principally affected), and whether it is later confirmed by other practice.

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Resolutions that may contribute to customary law are to be distinguished from resolutions that are legally binding on members [cit]. The latter, too, may reflect state practice or opinio juris, but they derive their authority from the charter of the organization, an international agreement in which states parties agreed to be bound by some of its acts. International conferences, especially those engaged in codifying customary law, provide occasions for expressions by states as to the law on particular questions. General consensus as to the law at such a conference confirms customary law or contributes to its creation.

The development of customary law has been described as part of a "process of continuous interaction, of continuous demand and response," among decision-makers of different states. These "create expectations that effective power will be restrained and exercised in certain uniformities of pattern. . . . The reciprocal tolerances . . . create the expectations of patterns and uniformity in decision, of practice in accord with rule, commonly regarded as law. " McDougal, The Hydrogen Bomb Tests and the International Law of the Sea, 49 Am.J. Int'l L. 357-58 (1955).

That a rule of customary law is not binding on any state indicating its dissent during the development of the rule (Comment d) is an accepted application of the traditional principle that international law essentially depends on the consent of states. [cit]. Refusal of states to adopt or acquiesce in a practice has often prevented its development into a principle of customary law, but instances of dissent and exemption from practice that developed into principles of general customary law have been few. . . .

QUESTIONS

1. Who should be bound by international law in the sense used by Bentham? Who should be bound by the law of nations or customary international law? Are there circumstances where private actors might be bound by such norms? *See* Kadic v. Karadzic, 70 F.3d 232, 239 (2d Cir. 1995).

2. How would you answer the question posed by the Reporters to the Restatement: how can practice build law? Why is it that states regard state practice as evidence of international law? How should the normative force of such “law” differ, if at all, from provisions of international treaties?

II. TREATIES IN U.S. LAW

1. Treatment Under United States law

The term "treaty" means something different in U.S. law than it does in international law. As used in the Vienna Convention on the Law of Treaties, a "treaty" means any international agreement concluded between two States in written form and governed by international law. *See* Vienna Convention, Art. 2.1(a). As used in the U.S. Constitution, Art. II, § 2, the word "treaty" has a special meaning related to how one kind of international agreement becomes law within the United States. Note that the Restatement uses the term "international agreements" to describe the compacts that are a source of international law. The following reading briefly discusses various forms of international agreement found in U.S. law.

S. REP. 103-53, TREATIES AND OTHER INTERNATIONAL AGREEMENTS: THE ROLE OF THE UNITED STATES SENATE
Study prepared for the Committee On Foreign Relations, U.S. Senate (1993)

TREATIES UNDER INTERNATIONAL LAW

Under international law an international agreement is generally considered to be a treaty and binding on the parties if it meets four criteria:

(1) The parties intend the agreement to be legally binding and the agreement is subject to international law;

(2) The agreement deals with significant matters;

(3) The agreement clearly and specifically describes the legal obligations of the parties;

(4) The form indicates an intention to conclude a treaty, although the substance of the agreement rather than the form is the governing factor.

International law makes no distinction between treaties and executive agreements. Executive agreements, especially if significant enough to be reported to Congress under the Case-Zablocki Act, are to all intents and purposes binding treaties under international law.

On the other hand, many international undertakings and foreign policy statements, such as unilateral statements of intent, joint communiques, and final acts of conferences, are not intended to be legally binding and are not considered treaties.

TREATIES UNDER UNITED STATES LAW

Under the Constitution, a treaty, like a Federal statute, is part of the "supreme Law of the Land." Self-executing treaties, . . . which do not require implementing legislation, automatically become effective as domestic law immediately upon entry into force. Other treaties do not become effective as domestic law until implementing legislation is enacted, and then technically it is the legislation, not the treaty unless incorporated into the legislation, that is the law of the land.

Sometimes it is not clear on the face of a treaty whether it is self-executing or requires implementing legislation. Some treaties expressly call for implementing legislation or deal with subjects clearly requiring congressional action, such as the appropriation of funds or enactment of domestic penal provisions. The question of whether or not a treaty requires implementing legislation or is self-executing is a matter of interpretation largely by the executive branch or, less frequently, by the courts. On occasion, the Senate includes an understanding in the resolution of ratification that certain provisions are not self-executing or that the President is to exchange or deposit the instrument of ratification only after implementation legislation has been enacted.

When a treaty is deemed self-executing, it overrides any conflicting provision of the law of an individual state. If a treaty is in irreconcilable conflict with a Federal law, the one later in time prevails, although courts generally try to harmonize domestic and international obligations whenever possible.

EXECUTIVE AGREEMENTS UNDER U.S. LAW

The status in domestic law of executive agreements, that is, international agreements made by the executive branch but not submitted to the Senate for its advice and consent, is less clear. Executive agreements may validly coexist with treaties, but it is not clear that all subjects dealt with by treaty may also be dealt with by executive agreement, especially if the agreement is concluded on the sole authority of the President. Three types of executive agreements and their domestic legal status are discussed below.

(1) Congressional-Executive Agreements

Most executive agreements are either explicitly or implicitly authorized in advance by Congress or submitted to Congress for approval. Some areas in which Congress has authorized the conclusion of international agreements are postal conventions, foreign trade, foreign military assistance, foreign economic assistance, atomic energy cooperation, and international fishery rights. Sometimes Congress has authorized conclusion of agreements but required the executive branch to submit the agreements to Congress for approval by legislation or for a specified waiting period before taking effect. Congress has also sometimes approved by joint resolution international agreements involving matters that are frequently handled by treaty, including such subjects as participation in international organizations, arms control measures, and acquisition of territory. The constitutionality of this type of agreement seems well established and Congress has authorized or approved them frequently.

(2) Agreements Pursuant to Treaties

Some executive agreements are expressly authorized by treaty or an authorization for them may be reasonably inferred from the provisions of a prior treaty. Examples include arrangements and understandings under the North Atlantic Treaty and other security treaties. The President's authority to conclude agreements pursuant to treaties seems well established, although controversy occasionally arises over whether particular agreements were within the purview

of an existing treaty.

Some executive agreements are concluded solely on the basis of the President's independent constitutional authority and do not have an underlying explicit or implied authorization by treaty or statute. Authorities which Presidents claim as a basis for such agreements include:

— The President's general executive authority in Article II, section 1, of the Constitution;

— His power as Commander in Chief of the Army and Navy in Article II, section 2, clause 1;

— The treaty clause itself for agreements which might be part of the process of negotiating a treaty, Article II, section 2, clause 2;

— His authority to receive Ambassadors and other public Ministers, Article II, section 3;

— His duty to "take care that the laws be faithfully executed," Article II, section 3.

Courts have indicated that executive agreements based solely on the President's independent constitutional authority can supersede conflicting provisions of State law, but opinions differ regarding the extent to which they can supersede a prior act of Congress. What judicial authority exists seems to indicate that they cannot.

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THE HOUSE ROLE IN TREATIES

Because treaties become part of the law of the land, concern is sometimes expressed that the House of Representatives does not share in the treaty power. The Framers confined the treaty-making power to the President and the Senate in the belief that the latter's smaller size would enable it to be a confidential partner in the negotiations. The need for maintaining secrecy during negotiations and acting with speed were also cited as justifications for not including the House. In addition, by making the treaty power a national power and requiring the advice and consent of the Senate, the Framers gave expression to their desire to form a strong central government while affording the States ample safeguards.

The Supreme Court, in *INS v. Chadha*, cited the Senate's power to advise and consent to treaties negotiated by the President "as one of only four provisions in the Constitution, explicit and unambiguous, by which one House may act alone with the unreviewable force of law, not subject to the President's veto." In 1945 the House adopted a resolution to amend the Constitution to require the advice and consent of both Houses for treaties, but the Senate did not act on the measure.

The House from the beginning has played a role in treaties that require implementing legislation. On occasion, as in 1796 with the Jay Treaty, problems have arisen when Presidents have completed ratification of treaties and then called upon Congress to pass implementing legislation to prevent the United States from defaulting on its international obligations. Or treaties approved by the Senate have remained unfulfilled for long periods because implementing legislation was not passed.

The increasing use of statutory agreements has also equalized to some extent the role of the House vis-a-vis the Senate in the making of international agreements. Executive agreements authorized or approved by legislation give a majority in the House and Senate the power analogous to the Senate's advice and consent by a two-thirds majority. . . .

INCREASING USE OF EXECUTIVE AGREEMENTS

As the United States became more involved in world affairs, international agreements multiplied. Most of the growth was in executive agreements. . . . In the 1980s, the United States entered into three or four hundred executive agreements per year, compared to 8 to 26 treaties per year.

The executive branch found it was much easier to conclude an executive agreement than a treaty because it was not submitted to the Senate. . . . The Senate, too, accepted executive agreements as an alternate method of making many international agreements, since submitting all agreements to the Senate as treaties would either overwhelm the Senate with work or force approval to become perfunctory.

Of most concern to the Senate were executive agreements concluded solely on the President's own authority, without any authority from Congress. In other executive agreements, the Senate played a role anyway. In the case of executive agreements concluded under the authority of a treaty, the Senate consented to the original treaty. In the case of congressional-executive agreements, both Houses passed the legislation that authorized, required scrutiny of, or approved the agreements.

NOTES AND QUESTIONS

1. Trade Agreements as Executive or Congressional-Executive Agreements. The Constitution grants the President the power "by and with the Advice and Consent of the Senate to make Treaties," U.S. Const. Art II, §2, but grants Congress the power "To lay and collect Taxes, Duties, Imposts and Excises. . ." U.S. Const. Art I, §8, cl.1. Thus, all agreements that affect import duties (tariffs) must be in the form of legislation passed by both houses of Congress rather than in the form of a treaty submitted to the Senate for its "Advice and Consent." Both the North American Free Trade Agreement Implementation Act of 1993, Pub.L. 103-182, December 8, 1993 (codified at 19 U.S.C. §3301ff) and the Uruguay Agreements Act of 1994, Pub. L. 103-465, December 8, 1994 (codified at 19 U.S.C. §3501ff) originated as bills in the House of Representatives.

2. Why might the use of executive agreements be increasing of late? What are the advantages of using such agreements? *See* Sol Picciotto, *Networks in International Economic Integration: Fragmented States and the Dilemmas of Neo-Liberalism*, 17 J. INT'L L. BUS. 1014, 1050 (1997). For an example of a pure executive agreement negotiated by the U.S. Trade Representative not involving Congress in any direct way, see *China-United States: Agreement Regarding Intellectual Property Rights*, 34 I.L.M. 881 (1995) (a so-called "Memorandum of Understanding"). Are such administrative

arrangements, which do not involve Congress in any way, subject to any constitutional limits? Does the fact that the China-U.S. agreement concerns obligations imposed only on China affect your analysis?

3. Section 151 of the Trade Act of 1974 (19 U.S.C.§ 2191) sets forth specific procedures giving the President the ability to negotiate trade agreements with the understanding that Congress will either pass or reject the agreement without modification within 90 days. Section 161 (19 U.S.C. § 2211) requires the U.S. Trade Representative to keep members of Congress informed on the status of trade agreement negotiations and to consult on a continuing basis with the House Ways and Means Committee and the Senate Finance Committee. Both the NAFTA Implementation Act and Uruguay Round Agreements Act were passed under this so-called "fast track" procedure (although the President's fast-track authority under the Trade Act has since expired). Given the plaintive tone of the Senate study about the failure of the Executive Branch to consult in a meaningful way, why would the Legislative Branch continue to give the President this type of deference? One critic of the system of trade agreement approval has said:

> The international trade system operates contrary to every principle of democracy and government accountability imbedded in U.S. domestic policymaking. Secrecy pervades the entire system. Trade officials operate behind closed doors with no public record of their activities when they negotiate or implement trade agreements or when they resolve disputes arising under them. As a result, there are no mechanisms for the public to monitor the development or implementation of international trade policy. To compound matters, trade decision-makers owe their allegiances to the trade regime and make no attempt to invite or incorporate other views. There are no avenues for public participation to ensure that other perspectives are taken into account. Thus, in the coming era of "government by trade agreements," domestic prerogatives will be foreclosed or made more costly by trade bureaucrats secretly negotiating agreements and adjudicating disputes thousands of miles away.

Patti Goldman, *Symposium: The Democratization of the Development of United States Trade Policy*, 27 CORNELL INT'L L.J. 631, 633 (1994).

Assuming such criticism is valid, does the opaqueness of the process of negotiation of trade agreements provide any benefits to the political branches of government? Do these benefits justify fast track treatment? Is legislation enacted pursuant to fast-track authority constitutional? Can it be argued that the procedure circumvents Article II, Section 2's treaty power, and that that provision represents the sole constitutional means of making an international agreement? *See* Made in the USA Foundation v. United States, __ F. Supp.2d ___ (N.D. Ala. 1999).

CONVENTION OF UNION OF PARIS OF MARCH 20, 1883, FOR THE PROTECTION OF INDUSTRIAL PROPERTY, REVISED AT BRUSSELS DECEMBER 14, 1900, AT WASHINGTON JUNE 2, 1911, AND AT THE

HAGUE NOVEMBER 6, 1925

Article 17

The execution of the reciprocal engagements contained in the present convention is subordinated, in so far as necessary, to the observance of the formalities and rules established by the constitutional laws of those of the contracting countries which are bound to procure the application of the same, which they engage to do with as little delay as possible.

ROBERTSON v. GENERAL ELECTRIC CO.

32 F.2d 495 (4th Cir. 1929)

[Because of World War I, it was impossible for nationals of the combatants to file patent applications. Section 308 of the Treaty of Versailles extended rights of priority until "six months after [its] coming into force." Before the peace treaty came into force, the Nolan Act of March 3, 1921 specifically extended the time for filing patent applications for five more months, until September 2, 1921. On November 2, 1921, the treaty of peace between the United States and Germany, known as the Treaty of Berlin, was ratified; and on November 11, 1921, it took effect upon the exchange of ratifications. Without specifically mentioning Section 308, it stated that "the periods of time . . . of the Treaty of Versailles shall run, with respect to any act or election on the part of the United States, from the date of the coming into force of the present treaty." Stoffregen, a German, delayed filing an application for patent with the Patent Office until May 10, 1922. It was rejected by the Patent Office Examiner on the ground that it had been filed more than twelve months after the filing of the foreign application on October 11, 1915, which decision was affirmed by the Court of Appeals for the District of Columbia. Appellees then filed a bill in the district court under R.S. 4915, (current 35 U.S.C. Section 145) arguing that the Treaty of Berlin extended the effect of Section 308 the Treaty of Versailles for six months from its entry into force. The district court agreed. The Fourth Circuit here reverses that decision.]

PARKER, Circuit Judge.

. . . Th[is] bring[s] us to the second ground upon which we think that the prayer of complainants must be denied, viz.: That . . . complainants are not entitled to the patent applied for, because the section is not self-executing and no legislation has been enacted to carry it into effect. Assuming that a treaty provision affecting patents may be made self-executing, so that no supporting legislation is necessary under the Constitution to give rise to individual rights thereunder, we are satisfied that section 308 was not intended to be, and is not, such a self-executing provision.

The rule as to whether a treaty is self-executing or not is clearly stated by Chief Justice Marshall in Foster & Elam v. Neilson, 2 Pet. 253, 313 as follows:

> A treaty is, in its nature, a contract between two nations, not a legislative act. It does not generally effect, of itself, the object to be accomplished, especially so far as its operation is infraterritorial, but is carried into execution by the sovereign power of the respective parties to the instrument. In the United States, a different principle is established. Our Constitution declares a treaty to be the law of the land. It is, consequently, to be regarded in courts of justice as equivalent to an act of the Legislature, whenever it operates of itself, without the aid of any legislative provision. *But when the terms of the stipulation import a contract -- when either of the parties engages to perform a particular act, the treaty addresses itself to the political, not the judicial department; and the Legislature must execute the contract, before it can become a rule for the court.* (Italics ours.)

The language of section 308 is that "the rights of priority . . . shall be extended by each of the high contracting parties," etc. This not only uses language of futurity, "shall be extended," as to a matter operating as to each nation infraterritorially, and not between nations, but it also provides that the extension shall be made, not by the instrument itself, but "by each of the high contracting parties." In other words, to use the language of Chief Justice Marshall, each of the parties "engages to perform a particular act," and therefore "the treaty addresses itself to the political, not the judicial, department, and the Legislature must execute the contract before it can become a rule for the court."

It was the opinion of Attorney General Miller [cit] that, as Congress alone was given by the Constitution the power "to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries," treaty provisions relating to patent rights must be deemed dependent upon legislation in aid thereof. And this seems to have been the view also of Judge Lowell in United Shoe Machinery Co. v. Duplessis Shoe Machinery Co. (C.C.) 148 F. 31, and there is much to be said in its favor. Patent rights differ from many other rights which are the subject of treaties, in that they are created by and dependent upon statutes which only Congress has power to enact. Furthermore, the right under a patent is not one which extends across national boundaries, and is therefore necessarily a matter for regulation by treaty, but is one which must be enjoyed within the territory of the nation. We think, however, that the better view is that a treaty affecting patent rights may be so drawn as to be self-executing. See United Shoe Machinery Co. v. Duplessis Shoe Mach. Co. (C.C.A. 1st) 155 F. 842] . . . But the reasons which led to the doubt as to whether a treaty could be so drawn as to effect patent rights, without supporting legislation by Congress, are matters which must be considered in the interpretation of treaties affecting patents; and they require that such treaties be held not self-executing, unless their language compels a different interpretation.

Patent rights are valid, of course, only within the country granting the patent. They are created by statute, and complicated administrative machinery is provided for the application of the statutory provisions. Treaties are drafted

ordinarily to accomplish certain general results, and in the nature of things cannot regulate details and ought not to interfere with the domestic machinery which the several countries have provided for the regulation of patents. For these reasons, unless a contrary intention is clearly indicated, they should be construed, not as of themselves making changes in the patent laws, but as contemplating that the various parties signatory will enact appropriate legislation and promulgate proper rules to effectuate the ends which they are designed to accomplish.

This rule of construction has been uniformly followed in this country, and treaties affecting patent rights have been held to be not self-effectuating, where the purpose that they should be carried out by supporting legislation was not by any means so clearly indicated as in the section of the treaty under consideration. Thus article II of the Convention of March 20, 1883, provided:

> The subjects or citizens of each of the contracting States shall enjoy, in all the other states of the Union, so far as concerns patents for inventions, trade or commercial marks, and the commercial name, the advantages that the respective laws thereof at present accord, or shall afterwards accord to subjects or citizens. In consequence they shall have the same protection as these latter, and the same legal recourse against all infringements of their rights, under reserve of complying with the formalities and conditions imposed upon subjects or citizens by the domestic legislation of each state.

In the opinion of Attorney General Miller, referred to above, this article was held not to be self-executing, but to require the support of legislation before it became a rule for the courts to follow. While the constitutional question to which we have adverted was discussed, the opinion was finally based upon the proposition that the treaty was a contract operating in the future intraterritorially. The Attorney General said:

> It is not necessary to the decision of the question submitted to me in the matter under consideration to determine whether all the provisions of treaties, whose execution requires the exercise of powers submitted to Congress, must be so submitted before they become law to the courts and executive departments, for the treaty under consideration is a reciprocal one; each party to it covenants to grant in the future to the subjects and citizens of the other parties certain special rights in consideration of the granting of like special rights to its subjects or citizens. It is a contract operative in the future infraterritorially. It is therefore not self-executing, but requires legislation to render it effective for the modification of existing laws." (Italics ours.)

In *Rousseau v. Brown*, 21 App.D.C. 73, Rousseau, a citizen of France, based his claim upon the provisions of the Convention of March 20, 1883. In denying his claim, the court said:

> The convention is in the nature of a contract between the parties

> thereto, and is not self-executing. It requires the action of Congress to give it full force and effect. *This is the construction that has been placed upon it by most of the parties to it,* and they have adopted legislation giving effect to it. . . . But without regard to the action of other states, *the uniform construction of that convention by the Patent Office officials, and by the courts of this country, has been that the convention is not self-executing,* but requires the aid of an act of Congress. (Italics ours.) . . .

The Convention of Brussels of December 14, 1900, changed the priority period for patents to twelve months and inserted in the prior convention a section known as article "4*bis*," as follows:

> Patents applied for in the different contracting States by persons admitted to the benefit of the convention under the terms of articles 2 and 3 shall be independent of the patents obtained for the same invention in the other states adherents or nonadherents to the Union.

There was some controversy in the lower courts as to whether this was a self-executing provision or not, but the Supreme Court, in Cameron Septic Tank Co. v. Knoxville, 227 U.S. 39, set these controversies at rest by showing that it was the sense of Congress that the treaty required legislation to become effective, that this was the understanding of other nations also, and that the act of 1903 was passed to carry it into effect. The court said:

> The act of 1903 was then enacted, and if there could be any doubt that it expressed the sense of Congress and those concerned with the treaty that it required legislation to become effective, such doubt would be entirely removed by the legislative action of other states. It appears from the report of the committee on patents of the Senate and of the House of Representatives on the proposed legislation that 13 countries had adopted legislation giving full force and effect to the provisions of the additional act either in the form of a general law or by specific amendment to other laws providing for carrying into force the provisions of the additional act as regards the extension of the 'delay and priority' to twelve months. Other countries were mentioned as being expected to do so. In explaining the object of the bill the member in charge of it in the House of Representatives said that it was to carry into effect the additional act of the convention held at Brussels in December, 1900. . . . If it [the treaty] be not self-executing, as it is certainly the sense of Congress that it was not and seems also to be the sense of some of the other contracting nations, and as the act of 1903 did not make effective article 4*bis*, the provisions of section 4887 apply to the Cameron patent and caused it to expire with the British

patent for the same invention.

In the light of these decisions, relating to treaties the language of which does not negative the idea of self-execution near so plainly as does that of section 308 of the Treaty of Versailles, it is clear that that section cannot reasonably be construed as self-executing. As no legislation has been passed in aid of it, except the Nolan Act, the time limit of which had expired before complainants filed their application, it follows that there is nothing upon which they can base the extension of priority rights for which they contend. . . .

Reversed.

NOTES AND QUESTIONS

1. Article 25 of the most recent text of the Paris Convention specifies that a member state undertakes "to adopt, in accordance with its constitution, the measures necessary to ensure the application of this Convention," and "[i]t is understood that, at the time a country deposits its instrument of ratification or accession, it will be in a position under its domestic law to give effect to the provisions of this Convention." National legislation should not contradict the convention but each country should interpret and apply the convention in accordance with its administrative and judicial institutions.

2. Section 104(c) of the Copyright Act of 1976, enacted as part of the Berne Implementation Act of 1988, clarifies that the Berne Convention is not self-executing in the United States by providing that:

> No right or interest in a work eligible for protection under this title may be claimed by virtue of, or in reliance upon, the provisions of the Berne Convention, or the adherence of the United States thereto. Any rights in a work eligible for protection under this title that derive from this title, other Federal or State statutes, or the common law, shall not be expanded or reduced by virtue of, or in reliance upon, the provisions of the Berne Convention, or the adherence of the United States thereto.

The declarations of Congress in Section 2 of the Berne Implementation Act, Pub. L. No. 100-568, similarly expressly prohibit any direct incorporation of the Berne Convention standards into U.S. copyright law:

> The Congress makes the following declarations:
> (1) The Convention for the Protection of Literary and Artistic Works, Signed at Berne, Switzerland, on September 9, 1886, and all acts, protocols, and revisions thereto (hereafter referred to as the "Berne Convention") are not self-executing under the Constitution and laws of the United States.
> (2) The obligations of the United States under the Berne Convention may be performed only pursuant to appropriate domestic law.
> (3) The amendments made by this Act, together with the law as it exists on the date of the enactment of this Act, satisfy the obligations of the United States in adhering to the Berne

Convention and no further rights or interests shall be recognized or created for that purpose.

No similar provision has been enacted into either the Lanham Act of 1946 or the Patent Act of 1952. Why is Congress more sensitive about self-execution of the Berne copyright convention than of the Paris industrial property convention?

3. Great Britain first proposed amending the Paris Convention at the Hague conference of 1925 to submit disputes to the Permanent Court of International Justice, predecessor to the International Court of Justice. The United States vehemently opposed the proposal, and it was not until 1967 that the possibility of referring disputes between states to the International Court was added to the Paris Convention. *See* Paris Convention, art. 28. Article 28 has never been invoked; neither has Article 33 of the Berne Convention, which contains a similar provision.

2. Intellectual Property Treaties

The earliest efforts to move beyond purely national protection of intellectual property involved bilateral agreements between two countries. In response to some of the deficiencies of bilateral agreements discussed below, *see infra* Part D, the late nineteenth century saw the development of multilateral agreements. These multilateral intellectual property treaties established unions of member countries from around the world that reached agreement on a number of common principles. They did not supplant national legislation; rather, they imposed upon member countries certain obligations as to how they will treat each others' products. As noted in Chapter I, *supra*, pages 8-9, the two most important of these treaties were originally negotiated in the late nineteenth century. They have been updated periodically, and are still in force.** **They are the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property. A number of other multilateral intellectual property treaties, narrower in coverage and in membership than the Berne and Paris Conventions, have been concluded since then.**

In the late twentieth century, different types of multilateral instruments governing intellectual property began to emerge. They were the outgrowth of a recognition that intellectual property had become important not only in itself but as a major component of global commerce. As a result, countries negotiating agreements on general commercial issues, such as trade and investment, began to incorporate provisions dealing with intellectual property. Some of these agreements are open to any country to join; others are regional agreements concluded among closed groups of countries with geographical ties. Similarly, when the European Union (EU) was created in order to achieve a common market, intellectual property laws were identified as a potential barrier to trade. As a result, the EU has taken a number of initiatives intended to facilitate the exploitation of intellectual property community-wide.

The most important trade agreement incorporating intellectual property provisions is the Agreement on Trade-Related Aspects of Intellectual Property Rights, known as the TRIPS Agreement. The TRIPS

Agreement is an annex to the agreement creating the World Trade Organization, which itself was an outgrowth of the Uruguay Round of the General Agreement on Tariffs and Trade. TRIPS was negotiated over the course of five years, and concluded as part of the Uruguay Round in 1994. It contains provisions relating to copyrights (and related rights, in the terminology of many countries), patents, trademarks, trade secrets, and semiconductor chips. It incorporates most of the substantive obligations of the Berne and Paris Conventions.

All of these types of instruments co-exist today. Accordingly, an entity that seeks to exploit intellectual property outside the borders of its own country, or a lawyer advising such an entity, should be aware of the existence and coverage of a range of treaties relating to intellectual property specifically, to trade, and to investment, both bilateral and multilateral, as well as the directives that harmonize the laws of the EU member states. All are described in this book, and reproduced in the Documentary Supplement.

Each of these multilateral treaties is administered by one or more international intergovernmental body. These organizations arrange and host meetings of their member countries to discuss, apply or update the relevant treaty, may assist in interpreting the treaty's provisions, and in the case of treaties which establish some sort of procedural mechanism like a filing system, actually operate the system. Their budgets are overseen by the governments of their member states. Depending on the organization, operating funds are provided by a combination of government contributions and/or by private sector fees for services. Each organization has an administrative staff, known as the International Bureau or Secretariat, which includes professionals from a variety of different member states.

The multilateral intellectual property treaties, including the Berne Convention and the Paris Convention, are administered by the World Intellectual Property Organization (WIPO) (known in French as the Organisation Mondiale de la Propriété Intellectuelle (OMPI)). Some are administered in conjunction with other organizations, such as UNESCO and the International Labor Organization (ILO). The TRIPS Agreement, as an annex to the World Trade Organization Agreement, is administered by the TRIPS Council of the World Trade Organization (WTO). These institutions are described in more detail below. *See infra* Part C.

Eligibility to join a treaty depends on the terms of the treaty itself. The WIPO treaties are open for membership to any WIPO member state. The TRIPS Agreement requires membership in the WTO; admission to the WTO requires agreement by the member states, upon satisfaction of a number of criteria relating to all of the trade issues covered by the WTO Agreement itself, not simply intellectual property. Regional agreements are limited to countries within the defined region. As a general matter, countries are expected or required to bring their laws into compliance with treaty obligations before joining.

As a practical matter, willingness to adhere to the multilateral intellectual property treaties has often been determined by balance of trade considerations: the country's status as primarily an exporter or an importer of the relevant form of intellectual property. The first signatories to the

Berne Convention were primarily European countries, and the Convention's rules were modeled on European droit d'auteur systems. Historically, developing countries have been reluctant to accede, at various times demanding special rules and concessions before they would do so. It was not until the late nineteenth century, for example, that the United States was ready to protect any foreign works within its borders, and not until nearly 100 years later that it joined the Berne Convention. Today, as the leading exporter of intellectual property in the world, the United States is a strong advocate for treaty membership and implementation.

The specific inclusion of intellectual property on the trade agenda in the 1980s, however, tipped the balance further toward widespread treaty membership. The advantages of various trade partnerships gave countries additional incentives, apart from an interest in protecting their own intellectual property exports. Joining the WTO, for example, provides many trade benefits, such as most favored nation status, that have been viewed by many countries as outweighing any detriment from providing protection to foreign intellectual property. ***See infra*** **Part D.**

Today, membership in the major multilateral conventions is quite high. Few countries that are substantial exporters or importers of intellectual property have not yet been brought into the international intellectual property community. Full compliance, of course, is another story, discussed in Chapter VII ("Disputes Between States").

3. How are treaties negotiated?

The treaty negotiation process itself is an interesting and important part of the landscape of international intellectual property law. Bilateral negotiations are relatively simple, involving two countries working together each to gain certain benefits. As might be expected, the multilateral version becomes more complex both procedurally and substantively, as a greater number of diverse approaches and viewpoints must be heard and accommodated.

Bilateral agreements come about when two countries each see something to be gained from making mutual promises. Some bilateral agreements relate specifically to one or more forms of intellectual property, such as the copyright agreement recently concluded between the United States and Vietnam. Others are agreements on trade or investment issues, which include aspects of intellectual property rights. Some developed countries prepare model agreements covering particular subjects, which are then adapted to the circumstances of the negotiating partner. With any of these bilateral agreements, representatives from the two countries' governments work together informally over an undefined period of time until they reach agreement.

Regional agreements almost by definition are trade agreements. Typically, contiguous or neighboring countries in a particular geographic region decide to work out the terms and conditions to remove market barriers between them. Often these terms include agreements on how to treat each others' intellectual property. The negotiation process is similar to the process for bilateral agreements, with representatives of several countries' governments working together in a closed, informal process.

Multilateral agreements, in contrast, are more institutionalized. They take place on the premises, and with the technical and administrative support, of intergovernmental organizations. Such agreements in essence establish an international framework or system that the negotiating countries agree is appropriate, and then those and other countries have the option of choosing to be bound by the obligations set out in the agreement.

The negotiating process for a multilateral agreement varies, depending primarily on which intergovernmental organization is involved. In any such negotiation, there are certain constants: Formal negotiations take place with the help of simultaneous interpreters, translating statements into all of the official languages recognized by that intergovernmental organization. Informal but official negotiations also take place, sometimes with interpreters and sometimes without. Interspersed throughout are constant unofficial bilateral and smaller group discussions, in hallways, offices, meeting rooms and even coffee bars or restaurants. Many politically or theoretically difficult points may be resolved in these private talks, to be adopted by the larger group.

It is important to the dynamic of negotiations that each country, no matter what its size or the level of its economic interest in the issue under discussion, has only one vote. Accordingly, no single country can unilaterally determine a result. Nevertheless, a country or group of countries whose participation is critical to the success of the treaty may have great influence in the process, either by persuading others to follow its lead, or by threatening to withdraw from negotiations. Moreover, votes are rarely taken. Decisions are generally made by consensus, with voting only as a last resort on particularly controversial issues. Indeed, arguments have been made that treaty provisions or agreed statements adopted by less than consensus should be deemed less authoritative.

One of the hallmarks of multilateral negotiations is the formation of groups of countries with some type of common interest, that work together to develop a unified strategic position. Such groups may be highly industrialized countries, sharing an economic stake in strong protection for the intellectual property that they export. Or they may be developing countries from a particular region of the world, perhaps sharing a legal system or cultural concerns. These groups range from formally recognized U.N. groupings to informal and ad hoc alliances. In recent years, for example, the developing country members of WIPO have formed regional groups, respectively covering Latin America and the Caribbean, Africa, and Asia. At meetings and conferences discussing or negotiating potential treaty language, a significant amount of time is spent determining the geographic and economic distribution of positions as officers presiding over the proceedings--the Chair and Vice-Chairs of various committees.

While there are a number of international bodies that have sponsored treaty negotiations of various types, the major multilateral treaties today that deal with intellectual property have been sponsored by the WIPO and WTO. The WIPO process is markedly different from the WTO process in a number of respects. First, and most notably, the private sector plays a significant role at WIPO negotiations. Nongovernmental organizations (known as "NGOs") that have been accredited by the Secretariat are permitted to attend most preparatory

meetings as well as the formal negotiating sessions. Not only do they observe, they also participate, making "interventions" to explain to governments their positions on the issues. The WTO process is less open. Not only is the private sector excluded from meetings and negotiating sessions, but WTO documents submitted or drafted by governments or the Secretariat are restricted in their distribution, and may only be made available to member governments unless and until they are specifically de-restricted.

Second, the process in the two organizations proceeds at a different rhythm and pace. The typical WIPO process is as follows: the Secretariat will identify a subject area that merits attention, organize one or more symposia and conferences in different locations to bring interested parties, academics and government policy-makers together to discuss it, and then place the subject on the organization's agenda. From then on, it will be a topic of discussion in ongoing meetings of a Committee of Experts, composed of government delegations representing WIPO member countries, usually taking place a few months apart over a period of several years.*** **Once the relevant Committee determines that the subject is ripe for consideration and negotiation of a treaty, it will recommend to the Governing Bodies (officials from member countries) that a Diplomatic Conference be convened, along with a schedule for preparatory work for the Conference. A Diplomatic Conference may occur in any member country, and typically continues for a set time period lasting several weeks. The treaty must be concluded within that time period; negotiations will not continue if they are not successful at that point.**

In the WTO, the negotiation of intellectual property provisions is part of a bigger and more extended series of negotiations, known as a "round." A new round is scheduled whenever member countries decide that there are sufficient outstanding trade issues on which further agreement would be useful. In the past, this has generally occurred at intervals of approximately four years. Preparatory work for a round is done through a combination of informal contacts and ministerial summit meetings, in which issues and concerns are identified and parameters established. Negotiations themselves take place over a lengthy period of time, with delegations convening to negotiate for a week every month or so over a period of years. Different members of the delegation will negotiate the details of particular issues within their competence, proceeding simultaneously. Final negotiations are concluded at a high political level, where trade-offs may be made among unrelated legal subjects. Deadlines are imposed at various stages, but are often extended.

C. LEADING INTERNATIONAL INSTITUTIONS AND ACTORS

As suggested above, the development of international intellectual property is undertaken by an increasingly broad range of institutions. These institutions include intergovernmental organizations, regional groupings of nation-states, international trade bodies, and private international law reform bodies. As intellectual property assumes a place of greater significance in social and economic policy, the number of relevant institutions multiplies. What follows is a description of the primary institutional “players” involved in the

process of developing international intellectual property law and policy.

1. THE WORLD INTELLECTUAL PROPERTY ORGANIZATION

The World Intellectual Property Organization ("WIPO") is a specialized agency of the United Nations, succeeding the Bureaux for the Protection of Intellectual Property (best known by its French acronym BIRPI) in that role in 1967. WIPO is an intergovernmental organization of 171 member nations with an International Bureau based in Geneva. Prior to the TRIPS Agreement, WIPO was the dominant multilateral forum in which international intellectual property law was developed, and it remains one of the two leading fora along with the WTO (the latter comprising both the TRIPS Council and WTO Dispute Settlement Body).

Most of the major multinational intellectual property agreements establish Unions consisting of all states that have adhered to the treaty in question. (Thus, for example, the international body responsible for the Paris Convention is referred to as the Paris Union.) The Union in question is governed by an Assembly, consisting of the adherent countries, and by an Executive Committee. The Unions assist in the review and revision of existing multilateral agreements, as well as operate the international registration systems established under agreements that facilitate multinational registration of industrial property rights. *See infra* Ch. VIII. Since 1967, the WIPO has been the administrator (sometimes along with other institutions) of most major Unions and treaties, with the principal exception of the TRIPS Agreement. (And, as we will see below, the WTO and the WIPO have concluded an agreement, envisaged by Article 68 of TRIPS, that gives WIPO an important role in the TRIPS system.) To perform these tasks, the WIPO has a significant staff of intellectual property experts and administrative personnel.

WIPO thus remains a forum (arguably still the primary forum) for the drafting, discussion, revision and conclusion of new intellectual property treaties, as well as the development of intellectual property norms through less formal lawmaking processes (such as the adoption of resolutions or the promulgation of model laws). In addition, WIPO offers significant specialized expertise to countries seeking to develop or improve their intellectual property laws. Indeed, this "technical" or "education" function is becoming a bigger part of WIPO's role. In recent years, WIPO has also established an Arbitration Center for administration of private (i.e., involving individuals rather than states) international intellectual property disputes. Although this Center was underused at first, the adjudication of disputes between trademark owners and domain name holders has since late 1999 been a boon to the Center.

2. THE TRIPS COUNCIL[****]

The Council for TRIPS is the body, open to all Members of the WTO, that has responsibility for the administration of the [TRIPS] Agreement, in particular monitoring the operation of the Agreement. The Council also constitutes a forum for consultations on any problems relating to TRIPS arising between countries as well as for clarifying and interpreting

provisions of the Agreement. The aim is, whenever possible, to resolve differences between countries without the need for formal recourse to dispute settlement. The Council meets in Geneva formally some five times a year as well as informally as necessary.

One of the characteristics of the former GATT and now of the WTO is the detailed and continuous follow-up of the implementation of obligations and the monitoring of compliance with them. The underlying belief is that unless there is detailed monitoring of compliance with international commitments, those commitments will be worth much less. Monitoring of compliance in the Council is done in two main ways.

First, the TRIPS Council is a body in which any Member can raise any issue relating to compliance by other parties. This has happened on a number of occasions, either in relation to the practices of a specific country or the application of a specific provision.

The second approach to monitoring compliance is a systematic examination of each Member's national implementing legislation by the other Members, involving the notification and a review of the legislation of Members.

Article 63.2 of the TRIPS Agreement requires Members to notify the laws and regulations made effective by that Member pertaining to the subject matter of the Agreement to the Council for TRIPS in order to assist the Council in its review of the operation of the Agreement. Laws and regulations should be notified promptly as of the time that the corresponding substantive obligation starts to apply. Given the difficulty of examining legislation relevant to many of the enforcement obligations in the Agreement, Members have undertaken, in addition to notifying legislative texts, to provide information on how they are meeting these obligations by responding to a checklist of 25 questions.

These notifications are the basis for reviews of implementing legislation carried out by the Council. The Council completed in the year 1997 its first review exercise that focused on those WTO Members, who no longer benefitted from a transition period, i.e. the developed countries. The Council continued in the first part of 1998 the review of six Members whose legislation had already been subject to the 1996/1997 review exercise but for whom the review had not been completed by the end of 1997. Including the questions of the Checklist of Issues on Enforcement, the review of the legislation of the 33 Members taken up in the period between 1996 and the first part of 1998 generated responses to some 5,000 questions recorded in some 3,000 pages of documentation. Furthermore, the Council reviewed in the autumn of 1998 the legislation of three Members, who had negotiated their accession to the WTO and, while applying a TRIPS transition period, had not yet been subject to the review.

One of the benefits of the review mechanism is that it is seen as an important vehicle for resolving issues that might otherwise become the subject of formal dispute settlement proceedings. Some of the more specific benefits include the *ex ante* effect of greater care in drafting legislation from the knowledge that new legislation will be reviewed, and the clearing up of misunderstandings about a country's legislation.

The review process also provides an opportunity to identify deficiencies in notified laws and regulations, as well as differences in interpretation. In a significant number of instances, the country whose legislation was under review has been willing to accept that it still has further work to do in order to make its laws conform fully with the WTO's rules. Some of the differences in interpretation will be discussed bilaterally. If they are not resolved in that way, they could eventually turn into formal disputes under the WTO dispute settlement proceedings.

A number of issues that have been subject to the invocation of the dispute settlement procedure have also been the focus of attention in the review process. For example, in the review of legislation on copyright and related rights, all Members that were reviewed were asked to explain how they provide protection to pre-existing works, performances and phonograms. Similarly, in the review of legislation on enforcement, most Members were asked to provide additional information on the way provisional measures could be ordered *inaudita altera parte*. Certain issues that were initially raised in the review of a given country, were subsequently taken up in the dispute settlement proceedings.[2]

Consequently, in addition to panel and Appellate Body reports and notified mutually agreed solutions, useful information relevant to questions of interpretation of TRIPS provisions may also be obtained from the questions raised on the floor of the TRIPS Council and the answers given by Members.

3. THE EUROPEAN UNION

a. Background to the European Union

The European Union (EU) is presently comprised of fifteen member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom. The EU, and the intellectual property law that it develops, has over the past decade become a significant variable in the intellectual property lawmaking process internationally. The imprint of EU legislation can be found not only on the intellectual property laws in the member states of the Union; EU legislation has also influenced the shape of national intellectual property laws outside the EU, as well as multinational intellectual property agreements. This influence arises in various ways. Non-EU countries that are within the European Economic Area (EEA)—which is comprised of the EU countries plus Iceland, Norway and Lichtenstein—must also comply with various laws of the EU including its intellectual property laws. The proposed enlargement of the EU to accept new members, principally from Central and Eastern Europe, is not too distant, and other countries in the area have thus felt a need to align their laws with those of the EU. *See* Thomas Helbling, Shapes as Trade Marks?—The Struggle to Register Three-Dimensional Signs: A Comparative Study of United Kingdom and Swiss Law, 1997 INTELL. PROP. Q. 413, 417 (discussing reform of Swiss trademark law). Finally, the intensive legislative activity of the EU in recent years means that the EU has developed a series of laws which serve as

useful models for countries seeking to introduce or modernize their own intellectual property laws.

Recent legislative developments involving intellectual property law in the EU have also found an echo in the United States. To cite only a couple of recent examples, the EU Database Directive adopted in 1996, *see infra* pages ___-___, has framed the discussion of database protection both on the multinational level and within the United States. Similarly, the Term Directive, which extended the term of copyright protection within Europe to life of the author plus seventy years, is in large part what motivated the parallel Sonny Bono Copyright Term Extension Act in the United States. *See infra* pages ___-___. Indeed, the extent of this influence led one scholar to write that there was a need for independent congressional investigation of the limits of cultural policy so as "to free U.S. innovation law from the grip of unelected foreign bureaucrats who have surrendered to sectoral protectionist demands." J. H. Reichman, *The Duration of Copyright And The Limits of Cultural Policy*, 14 CARD. ARTS & ENT. L.J. 625, 653 (1996).

Although the European Economic Community (and with it the collective grouping called the European Communities) was established in 1957 by the Treaty of Rome, an international agreement concluded among six countries, the entity that we now call the EU was only established in 1991 by the Treaty on European Union (the Maastricht Treaty) . It rests on three so-called "pillars"

(1) the European Communities (*i.e.,* the former European Economic Community now renamed the "European Community" or "EC", the European Coal and Steel Community and the European Atomic Energy Community);

(2) the process of formal intergovernmental cooperation in the fields of foreign and security policy; and

(3) the process of formal intergovernmental cooperation in justice and home affairs (such as asylum policy, police co-operation).

Strictly speaking, intellectual property legislation is pursued through the legislative workings of the EC. The articles of the Treaty of Rome, the foundational document of the European Communities in 1957, have undergone successive revision over the course of the last forty-two years and are now codified in the EC Treaty. In 1998, these revisions were systematically consolidated, causing extensive renumbering of the treaty's articles. Throughout the casebook we have followed custom and used terms such as "ex-Article __" if referring to the older text. If we have edited the EU materials to reflect the new numbering, this is indicated through the use of square brackets. A concordance between the old and new numbering can be found at http://www.europa.eu.int.

b. The Institutions of the European Union

The European Commission is central to the European project, and is essentially the administrative branch of the EU. The Council and the European Parliament require a proposal from the Commission before adopting legislation. The Commission is also central to the enforcement of EU law, by ensuring that member states are complying with their obligations under that law. Finally, the Commission has responsibility for negotiating and monitoring the Union's international trade relationships. The Commission is based in Brussels, has

twenty members, two each from the big five countries (France, Germany, Italy, Spain and the United Kingdom) and one from each of the other ten Member States. Each commissioner serves a five year term. The appointed nature of the Commission has led to claims of a "democracy deficit" in the EU. Recent institutional reforms have attempted to remedy that by ensuring greater oversight by the elected body, the Parliament. The full Commission has to be approved by the Parliament before its members can take office, and they can (as in 1999) be required to resign en bloc by a parliamentary vote of censure. Until recently, the Commission was divided into 26 numbered directorates-general (DGs). As of October 1, 1999, under a new organizational structure implemented by Commission President Romano Prodi, the DGs are now referred to by title rather than by number. Each DG is headed by a director-general, reporting to a Commissioner who has the political and administrative responsibility for the work of the DG. Responsibility for intellectual property law is assigned to the DG with primary responsibility for the internal market (formerly called DG XV) and additional relevant activity can be found in the Information Society DG.

The Council of the European Communities is comprised of 15 members, one from each member state government. The precise membership of the Council depends upon the subject matter before it. If the matter relates to finance, the 15 governments will send their finance ministers; if the matter relates to transport, the 15 governments will send their transport ministers. There are 25 of these different "subject-matters", with intellectual property being dealt with at the Internal Market Council Meetings. The Presidency of the Council rotates among the 15 member states, changing every six months. Voting in the Council is weighted, with the big four countries (Germany, France, the U.K. and Italy) receiving ten votes, Spain eight votes and the smaller countries receiving lesser numbers reflecting their different sizes.

The European Parliament sits in Strasbourg, France, but its committees also meet frequently in Brussels for ease of access to the Commission. The role of the European Parliament in the lawmaking process has increased as the EU has matured, partly because of the Parliament's status as the only directly elected body involved in the legislative process. The numbers of MEPs from each country corresponds approximately with that country's population, although the MEPS sit and act by political grouping rather than by nationality.

*The European Court of Justic*e is discussed separately below.

c. Legislative Instruments

The legislation of the EU may take two primary forms. A *Regulation* has general application, is binding in its entirety and is directly applicable in all Member States. It does not require national implementing legislation to become effective in Member States. It is essentially a federal law of Europe. A *Directive*, in contrast, is not directly applicable in the Member States. Its provisions normally require positive implementation (called "transposition") in the domestic laws of the Member States.* Article 189 provides that "A Directive shall be binding as to the result to be achieved . . . but shall leave to the national authorities the choice of form and methods". A directive is not unlike a model state law, but one that states are obliged to enact (with some minor room for

tailoring to the specialities of their own system). Directives must be given effect by a stated date by each of the Member States. If the Member State fails to transpose the Directive by that date, the Commission may bring an action against the Member State before the Court of Justice.

d. Legislative Process

The European Commission initiates all legislation of the EC. Without the Commission, there is no legislation. The degree of involvement of the Council and the Parliament varies depending upon which provision of the Treaty of Rome the Commission rests its authority to propose the legislation. Different provisions implicate different legislative procedures. The precise legislative procedure involved is set out in great detail in the relevant authorizing provision, but there are two basic paradigms.

Under *the consultation procedure,* the opinion of Parliament must be obtained by the Council before acting on and adopting a legislative proposal of the Commission. But that is the sum of the Parliament's formal involvement. The Parliament thus has little ability to affect legislation that is pursued under this procedure; unanimous approval by the Council is, however, required. This procedure is followed, for example, where legislation rests upon the authority of original Article 235 of the EC Treaty, which might be viewed as the "Necessary and Proper" clause of the Treaty of Rome. Article 235 authorizes appropriate Community measures if necessary to attain the objectives of the Community even if the Treaty has not provided the necessary powers. This authority has been used to enact Community-level intellectual property Regulations creating unitary EU-wide rights. *See infra* Ch VIII.

However, the bulk of the intellectual property legislation enacted or considered by the EU has taken the form of harmonization directives. Harmonization of the laws of member states is essential if the territorial nature of intellectual property rights is not to frustrate the free movement of goods, an objective which lies at the heart of the EU. The harmonization of intellectual property laws among the Member States has typically been attempted by the Commission pursuant to original Article 100a of the EC Treaty, which provides authority to enact legislation necessary to complete the internal market. Legislation proposed under that Article involves the *codecision* (or *joint legislative) procedure.* This procedure, which enhanced the role of the Parliament in the making of legislation, was introduced by the Maastricht Treaty in 1992. With respect to legislation proposed under this procedure, Parliament has a veto: if it rejects the so-called "common position" of the Council, the Council cannot adopt the legislation. Although Parliament has a greater ability to influence and halt legislation under this procedure, the Council is able to act by a qualified majority (i.e., with the support of states possessing a defined number of votes in Council). Although Parliament has the power, by an absolute majority of votes cast, to veto legislation considered under the codecision procedure, it has exercised that prerogative only rarely. It has used the power, however. In 1995, Parliament used its powers under the codecision procedure to block enactment of the first effort at a Biotechnology Patent Directive. *See infra* pages __-__. (Legislation can also be blocked through other procedural devices. *See infra* __-

__ (discussion of droit de suite directive).

e. The Judicial Process

The European Court of Justice, which sits in Luxembourg, is comprised of 15 judges (one from each state), appointed for 6 year terms. The President of the Court is selected by the members of the court themselves, and he or she will serve in that capacity for a renewable term of three years. In 1989, *the Court of First Instance* was created to help the Court of Justice deal with an increasingly busy workload, but there is no established system of inferior EU "federal" courts. The composition of the Court of First Instance is likewise 15 judges appointed for 6 year terms, and again the President is chosen by the judges themselves. The Court (and the Court of First Instance) sits in chambers of three or five, but can sit in plenary session when a Member State or Community Institution (i.e., the Commission, Council or Parliament) that is party to the case requests that, or if the case is particularly complex. It was announced in December, 1999 that the European Parliament is to consider interim measures to lessen the workload of the ECJ by increasing the responsibility of the Court of First Instance. Ahead of more wide-ranging reforms of the courts next year, the Parliament is to vote on increasing the number of CFI judges from 15 to 21, to assist mainly with intellectual property cases.

In the early stages of the case, the President assigns one judge as rapporteur, and an advocate-general is assigned to the case. There are nine advocates-general. The advocates-general listen to the argument along with the judges, and then deliver their opinions on the case in advance of the court issuing a decision. The opinion of the advocate-general is often extremely influential (and typically more length than the judgement issued by the Court). The decisions of the Court are reached by majority vote, but no dissenting opinions are issued and judgments are signed by all the judges who participated in the case. The judgments of the Court tend to be more cryptic and more sparsely reasoned than U.S. opinions. The court does not adhere to stare decisis, but it does follow the continental European philosophy of *jurisprudence constante* in seeking to have some uniformity in the application of the law.

The Court of Justice has jurisdiction to hear a variety of types of cases, the most important of which are:

(1) *Enforcement Actions.* An action may be brought under original Article 169 (now Article 226) against a Member State for failure to fulfil an obligation under Community law. *See, e.g.,* Case C213/98, Commission v. Ireland, Eur. Cur. L. 36, Nov. 1999 (E.C.J. Oct. 12, 1999) (upholding Commission action against Ireland under Article 169 for failure to implement Rental Rights Directive and rejecting Irish defense that implementation was awaiting full-scale review of Irish copyright legislation) [move to note in Ch 6]. This will normally be brought by the Commission, but may also be brought (under original Article 170) by another Member State. The remedy is to require compliance or, if that does not occur, to impose fines.

(2) *Preliminary Reference Procedure*. Perhaps the most important jurisdiction of the Court of Justice for the purpose of intellectual property law has been its "preliminary reference" jurisdiction under original Article 177 of the Treaty of Rome (now Article 234 of the EC Treaty).[**] Issues of EU law arise with increasing frequency in litigation in EU member states. In order to prevent divergent national court decisions from leading to conflicting interpretations of Community law, if an issue of Community law arises before a national court that national court may, and in some cases must, seek a preliminary ruling from the Court of Justice on the relevant question. Although the reference is made by the national court, the private litigants in the national proceedings may appear before the Court of Justice when it hears the reference. Article 177 does not establish the Court of Justice as a court of final appeal above the national court systems (at least not conceptually); this is a reference procedure common in many jurisdictions. The national court will frame a question to be answered by the Court of Justice; the Court of Justice will apply the law and provide a ruling in the form of an answer to that question; and the national court will then apply the relevant law to the case at hand taking into account the answer of the Court.

f. The Relationship Between National and Union Law

One of the most important early decisions of the Court of Justice was to declare the supremacy of Community law. If there is a conflict between applicable Community law and a provision of national law, the national law will be subordinated to Community law. These decisions, in the formative years of the Community, essentially wove a Supremacy Clause into the constitutional fabric of the Union. And it is through this principle that the European Court of Justice developed case law on intellectual property law. The Court strictly has no jurisdiction to interpret or rule on matters of national law absent harmonization of those laws by Community legislation or a conflict between those national laws and the laws of the EC In the early years, before EU harmonization of national intellectual property laws, the Court reached intellectual property issues primarily in the context of analyzing their consonance with the competition law principles found in original Articles 85-86 of the EC Treaty or with the free movement principles found in original Articles 30-36. The latter relation—with free trade principles—took the Court on variety of detours before developing its current exhaustion jurisprudence. Perhaps because this was the context in which the early case law arose—whether intellectual property rights interfered with higher Community objectives—the Court was seen as suspicious of broad intellectual property rights. The court case load tended to consist of preventing the assertion of national intellectual property rights from partitioning the EU market. The Court still considers intellectual property issues in that context,[***] but in the last few years, an increasingly large part of the Court's intellectual property caseload has been generated by the need to assist national courts in interpreting the various intellectual property harmonization directives as they are given effect in national law.

g. The Evolution of EU Attitudes to Intellectual Property Rights

The foundations of the EU are built on principles of free trade and a common market. As noted above, the initial attention to intellectual property law by the EU was thus prompted by a concern that the territorially-founded intellectual property laws of the different member states did not operate to restrict or impede the free flow of goods or the functioning of an efficient market. From that early perspective, reform of intellectual property law has assumed a more affirmative place on the EU agenda. As the political objectives of the Union have widened to include (more explicitly) such matters as industry competitiveness, the ability of intellectual property protection to encourage innovative activity in Europe has received a greater prominence, particularly on the legislative side of the ledger. In the late 1980s and the 1990s, therefore, the activity in the EU in connection with intellectual property reform was quite hectic. And the legislative developments since 1988 have all, for the most part, resulted in greater and more consistent protection of intellectual property rights in the EU.

As noted above, the largest part of the legislative agenda in the field of intellectual property law has been harmonization directives. These directives were brought forward by the Commission as part of efforts to complete the "internal market" by 1992. The harmonization that has been effected by these instruments has tended to be partial or fragmentary in nature. Thus, for example, the Trademark Directive harmonized registered trademark laws, but left untouched unregistered trademark or unfair competition laws. Similarly, the early reforms of copyright law were sector-specific, targeted harmonization; the Commission only rarely included so-called "horizontal provisions", which would apply to all copyrighted works, in harmonization directives. For example, the software directive establishes levels of copyright protection for software; the database directive does the same for databases.

In the case of industrial property rights, which are largely based upon registration, the Commission has sought to go further and enact unitary Community-wide rights. The alternative of harmonizing Member States' laws (which had been used in eradicating differences in national protection accorded computer software, databases and semiconductor topographies) would be inadequate in this context. Harmonization in itself would not preclude the partitioning of markets that territorial protection creates; and where registered rights are involved, unlike the rights by which databases or software was protected, harmonization would not substantially reduce the costs involved in applying for rights separately in each country. The introduction of a single, autonomous law obviates the problems wrought by territorial protection. The first of these "unitary Community-wide laws" was created in 1994, when the EU enacted the Trademark Regulation, which created the Community Trade Mark. Applications for a Community Trademark registration are determined by the Office for Harmonization in the Internal Market (OHIM) which was set up in Alicante, Spain. *See infra* pages ___-___. Also now pending is a Regulation that would create unitary EU-wide design rights. *See infra* pages ___-___. And in June 1997, the Commission issued a Green Paper on reform of the patent system that asked whether it was time to introduce a unitary Community patent. *See infra* pages ___-___.

h. The Status of the EU in International Intellectual Property Law

The EU may sign international agreements along with the Member States. The Commission has responsibility for negotiating and monitoring the Union's international trade relationships. In Opinion 1/94 on the Agreement Establishing the World Trade Organization, the European Court of Justice was asked to determine who had the competence to conclude and signs various agreements incorporated into or annexed to the World Trade Organization Agreement, including TRIPS. The Commission argued that the negotiation and ratification of TRIPS fell exclusively within the competence of the Community because of internal Community harmonization in the services sector, and that consequently the individual member States should not have co-signed the TRIPS agreement. The Court concluded that because there had only been partial harmonization achieved in the field of intellectual property, both the Community and the Member States were jointly competent to conclude TRIPS. Accordingly, the Commission (on behalf of the EU) and the Member States each signed the agreements.

The incomplete federal status of the EU has raised problems in determining whether it has a right to a separate vote in international intellectual property assemblies. The newly formed Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications decided at its first session in Geneva in July 1998 that membership in the Standing Committee would also be extended to the EU, provided that it shall not have the right to vote. See Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications, First Session (July 13-17, 1998), Report prepared by the International Bureau ¶ 16 (WIPO Doc. __-__) (_____). Different solutions have been adopted in different contexts, such as in the negotiation of the Madrid Protocol and the WIPO Copyright Treaty. *See infra* pages ___-___.

4. UNESCO

The United Nations Educational, Scientific and Cultural Organization (UNECSO) came into being at the conclusion of the Second World War and currently has 188 Member States. The principal goal of UNESCO is to contribute to peace and security in the world by promoting collaboration among nations through education, science, culture and communication. The founding documents of the Organization declare that:

> Since wars begin in the minds of men, it is in the minds of men that the defences of peace must be constructed. . . A peace based exclusively upon the political and economic arrangements of governments would not be a peace which could secure the unanimous, lasting and sincere support of the peoples of the world, and the peace must therefore be founded, if it is not to fail, upon the intellectual and moral solidarity of mankind.

In addition to acting as a forum for discussion of these issues, which inevitably impinge upon matters of intellectual property law and policy,

UNESCO provides technical assistance to member states and prepares the way for the adoption of international instruments pertaining to matters within its remit. The Organization also serves as administrator of the Universal Copyright Convention.

UNESCO is served by a Secretariat based in Paris and in 60 different offices scattered throughout the world; the Secretariat implements decisions taken by the Member States in setting the Organization's agenda. UNESCO serves as an important link to a large number of non-governmental organizations with which it has official relations (and other NGOs with which it has informal relations).

5. OECD

The Organisation for Economic Co-operation and Development (the OECD) consists of 29 member countries, largely from the developed world. The OECD provides a forum for member governments to discuss economic and social policy, including issues relating to intellectual property protection and ecommerce. Its role is as much to provide the opportunity for policy discussion as to produce formal international agreements. Although member states tend to be wealthier nations, membership in the OECD is conditioned only upon a country's commitment to a market economy and a pluralistic democracy. The original members has expanded from Europe and North America, and now includes Japan, Australia, New Zealand, Finland, Mexico, the Czech Republic, Hungary, Poland and Korea.

The work of the organisation and its constituent governments is supported by a Secretariat based in Paris. The work of the OECD Secretariat is financed by the Member countries, with contributions calculated according to the weight of the member state's economy. (The United States is the biggest contributor followed by Japan.) The Secretariat, which is comprised of economists, scientists, lawyers and other professional staff, produces a wide range of data and research reports for use by the governments in the formulation of economic policies. Member countries meet and exchange information in committees; countries are represented either by government ministers or by personnel from the member's permanent delegation to the OECD. The principal (and decision-making) organ of the OECD is the Council, which meets at ministerial level annually. (A representative of the European Commission now attends these meetings along with a representative from each member state).

As intellectual property becomes a more significant part of economic policy, the OECD has afforded the topic greater attention. At present, the question of ecommerce in particular is the subject of OECD study and thus the policies and decisions of the Organization, consisting as it does of extremely influential and powerful countries, will help to shape the principles of intellectual property law at the heart of the digital revolution.

6. THE HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW

The First Session of the Hague Conference on private international law

was convened in 1893 by the Netherlands Government. The Conference entered into a new era in 1955 with the entry into force of a statute which made the Conference a permanent intergovernmental organization. Since 1956, regular Plenary Sessions have been held every four years, the nineteenth of which will meet in 2000. The purpose of the Hague Conference is "to work for the progressive unification of the rules of private international law" (Statute, Art. 1), primarily by the negotiation and drafting of multilateral treaties in various aspects of private international law. Thus, the Conference has addressed matters of international judicial and administrative co-operation (such as service of process or taking of evidence abroad), conflict of laws, and jurisdiction and enforcement of foreign judgments. This last topic is currently under heated discussion, and a draft convention under consideration contains provisions targeted particularly at international intellectual property litigation. *See infra* Ch IX.

The initial research work of the Conference is undertaken by a permanent Secretariat based in the Hague, with the early drafts of proposed Conventions prepared by Special Commissions made up of governmental experts. The drafts are then discussed and adopted at a Plenary Session of the Hague Conference, which is a diplomatic conference. The texts adopted are brought together in a Final Act that is signed by the delegations. Under the rules of procedure of the Plenary Sessions each Member State has one vote. Decisions are taken by a majority of the votes cast by the delegations of Member States which are present at the vote.

Formally, the Netherlands Standing Government Committee of private international law sets the agenda for the Plenary Sessions, but in practice the Special Commissions of governmental experts meeting between Sessions make recommendations to the Plenary Sessions which are considered and acted on by the Plenary Sessions.

The Hague Conference maintains continuing contacts with a number of international organizations involved in private international lawmaking, including the United Nations Commission on International Trade Law (UNCITRAL) and the International Institute for the Unification of Private Law (Unidroit).

D. NATIONAL TREATMENT AND UNCONDITIONAL MOST-FAVORED NATION [MFN] TREATMENT

The earliest efforts to move beyond national protection of intellectual property, bilateral agreements between two countries, were generally based on the principle of *reciprocity*. In essence, each country would agree to protect intellectual property from the other country under its own legal system, but only to the same extent that the other country extended protection to the first country's intellectual property. As a result, the scope of protection for the same type of intellectual property could be quite different within the same country, depending on what country was its source.

By the late nineteenth century, it became clear that this narrow, piece-meal approach was less than optimal, given the scope of modern trade. Bilateral treaties were not an efficient way to regulate global markets. In addition,

reciprocity itself had certain negative aspects, including the fact that it was burdensome to apply, since it required determining the contents of the other country's laws, and discriminated against foreign right holders relative to national right holders. A movement grew among right-holders, and among countries that were major producers of intellectual property, for more broad-based solutions.

The result was the development of multilateral treaties, establishing unions of member countries from around the world that reached agreement on a number of common principles. The general approach of these treaties is, first, to replace the principle of reciprocity of protection with that of *national treatment*: member countries are required to give nationals of other member countries the same protection that they give their own nationals. National treatment has also been the cornerstone of both primary intellectual property treaties, the Paris Convention (Article 2) and the Berne Convention (Article 5), for over a century. (It is also found in the intellectual property provisions of trade agreements: Article 1703 of the NAFTA and Article 3 of TRIPS require the states party to those agreements to observe the principle of national treatment.) National treatment thus substitutes a rule of non-discrimination for the principle of reciprocity. Each state that becomes party to an international agreement providing for national treatment makes a commitment to every other state party: that the nationals of that other state will not be discriminated against in comparison to nationals of the home state. To accept the principle of national treatment is implicitly to accept the proposition that states may differ in their substantive laws, but that international cooperation between states on important matters is itself valuable consideration, over and above any special benefits that may accrue in exchange for reciprocal benefits from that state.[****] Second, in order to avoid substantial discrepancies in levels of protection in different countries, the treaties establish a floor of protection by requiring certain minimum rights to be granted to nationals of other member countries. In the area of industrial property, they also create a framework for procedures to follow in order to secure rights abroad.

International trade agreements embody two concepts that can be grouped under the general heading of a principle of non-discrimination: national treatment, as discussed above, and *most favored nation* [MFN] treatment. MFN requires that, if a state that is a party to the trade system grants benefits or bounties to other states, then such benefits will be accorded all states within the multilateral system. Unconditional MFN treatment is the cornerstone of the modern multilateral trading system which began with the establishment of the GATT in 1948. Article I of the GATT requires member states to accord "any advantage, favour, privilege, or immunity [granted to the products of one state] immediately and unconditionally" to all other contracting parties.

In the early development of the world trading system prior to 1986, intellectual property rights were not directly included in GATT's unconditional MFN obligations. GATT Article II(d) states:

> 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:
> . . .
> (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to the protection of patents, trade marks and copyrights, and the prevention of deceptive practices.

The MFN principles of GATT were incorporated into the international intellectual property system in the TRIPS Agreement. *See* TRIPS Agreement, art. 4.

J.H. Reichman, UNIVERSAL MINIMUM STANDARDS OF INTELLECTUAL PROPERTY PROTECTION UNDER THE TRIPS COMPONENT OF THE WTO AGREEMENT,
29 Int. Law. 345, 347-51 (1995)

Perhaps the most important "basic principle" that applies virtually across the board is that of national treatment of (that is, nondiscrimination against) foreign rights holders.[3] This principle of equal treatment under the domestic laws is then carried over to relations between states in the most-favored-nation (MFN) provisions of article 4. The latter article ostensibly prevents one member country from offering a better intellectual property deal than is required by international law[4] to nationals of a second member country and then denying similar advantages to the nationals of other member countries.

Taken together, the national treatment and MFN provisions attempt to rectify the damage that some states recently inflicted on the international intellectual property system by unilaterally asserting claims of material reciprocity with respect to hybrid legal regimes falling in the penumbra between the Paris and Berne Conventions. In practice, however, certain express limitations could diminish the effectiveness of these basic requirements. For example, while the national treatment and MFN clauses both apply "with regard to the protection of intellectual property," it turns out that, for purposes of the TRIPS Agreement, the term "intellectual property" refers only to seven of the eight subject-matter categories enumerated in sections 1 through 7 of part II. These include (1) copyrights and related rights; (2) trademarks and (3) geographical indications; (4) industrial designs; (5) patents; (6) integrated circuit designs; and (7) trade secrets or confidential information. As regards neighboring rights covered by the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (Rome Convention), national treatment and the MFN clause apply only to those rights that the TRIPS Agreement selectively provides, but not to rights generally flowing from that Convention.

The precise mesh of these provisions remains to be seen, but the following overall framework seems plausible. First, international intellectual property treaties existing at the time that the TRIPS Agreement takes effect are generally immunized from the MFN clause (but not the national treatment clause

except as expressly provided) under a grandfather provision within the TRIPS Agreement, which only this Agreement can override.[5] Second, existing and future agreements establishing "customs unions and free-trade areas" of a regional character may, to varying degrees, be immunized from applying MFN treatment, and possibly national treatment, to some non-TRIPS-mandated intellectual property measures affecting intra-regional adherents, at least insofar as past practice under article XXIV of the [GATT] is carried over to the WTO Agreement and applied to intellectual property rights. Third, states otherwise contemplating unilateral measures to protect intellectual property rights in the future must generally weigh the costs and benefits of nonreciprocity with respect to other WTO member countries, unless the measures contemplated fall outside the seven categories of "intellectual property" recognized by the TRIPS Agreement[6] and outside the residual national treatment clauses of the Paris and Berne Conventions.[7]

Whether any specific measures that were arguably not cognizable under existing conventions, such as the European Union's proposed regime to protect electronic data bases or certain levies for private copying of audio and visual recordings like those implemented in France, may escape the MFN and national treatment clauses of the TRIPS Agreement will thus depend on a variety of factors. These include evolving state practice with respect to regional trade agreements and the extent to which decision makers interpret "intellectual property" as narrowly defining the seven categories of subject matter to be protected or as broadly defining certain modalities of protection. It may also depend on who interprets these clauses, given the uncertain jurisdictional and substantive powers of the WTO panels to be established under binding dispute-resolution procedures set out in the TRIPS Agreement. In any event, the drafters seem to have built in some incentives for states contemplating new protectionist measures to seek to address their needs within the framework of ongoing multilateral discussions affecting barriers to trade in general.

Beyond these equal-treatment obligations, states must accord to the nationals of other member states those international minimum standards of intellectual property protection that are comprised within “the treatment provided for in this [TRIPS] Agreement.” One component of this “TRIPS treatment” consists of the basic substantive provisions of the Paris Convention . . ., of the Berne Convention . . ., and of the Treaty on Intellectual Property in Respect of Integrated Circuits (IPIC Treaty). The other component consists of minimum standards that the TRIPS Agreement applies irrespective of preexisting international norms and sometimes at the expense of those norms.[8] In either case, the relevant standards “are integral parts of this WTO Agreement, binding on all members.”[9]

QUESTION

The incorporation of minimum standards for the protection of intellectual property in national legislation of GATT member states in the TRIPS Agreement was based upon the assertion that inadequate standards for the protection of intellectual property in some of the member states of the GATT were trade-distorting under Article XX(d). After TRIPS, do states continue to have the legitimate right to discriminate against other states in areas covered by the TRIPS

Agreement? *See* Edward A. Laing, *Equal Access/Non-discrimination And Legitimate Discrimination In International Economic Law*, 14 WIS. INT'L L.J. 246 (1996). The development of the substantive provisions of TRIPS will be discussed in more detail below in Chapters V-VI, and WTO Dispute settlement will de dealt with in Chapter VII.

MURRAY v. BRITISH BROADCASTING CORP.
81 F.3d 287 (2d Cir. 1996)

Winter, Circuit Judge:

Dominic Murray, a British national, appeals from Judge Stanton's dismissal of his complaint based on the doctrine of *forum non conveniens*. The action was brought against the British Broadcasting Corporation ("the BBC"), a corporation organized under the laws of the United Kingdom, and BBC Lionheart Television International ("Lionheart"), a Delaware corporation and wholly-owned subsidiary of the BBC. It asserted claims based on copyright infringement under both United States and English law, false designation of origin, and unfair competition. Murray's principal arguments on appeal are that *forum non conveniens* was misapplied either because the district court should have granted greater deference to his choice of forum or because a contingent fee arrangement is not available in the United Kingdom for this kind of litigation. Alternatively, Murray contends that the district court abused its discretion in weighing the various factors applicable under *forum non conveniens* doctrine. We affirm.

BACKGROUND

Murray is a self-employed designer and manufacturer of costumes and props in London, England. In July 1992, the BBC engaged Murray to produce a disguise costume for Noel Edmonds, the host of a BBC television program styled "Noel's House Party." The costume, named Mr. Blobby, was to be worn by Edmonds in order to surprise celebrity guests on the program. The British public began identifying Mr. Blobby as a character rather than a costume. As a consequence, the Mr. Blobby costume, now worn by an actor instead of Mr. Edmonds, has become an unexpected success and has been put to a wider use. In 1993, the BBC began authorizing and licensing products bearing the likeness of Mr. Blobby in the United Kingdom. According to Murray, he consulted with English counsel at that time concerning an action for infringement of his copyright in the Mr. Blobby costume. He allegedly declined to pursue his claim because he could neither pay the 100,000 to 200,000 pounds necessary to bring his case to trial nor post the security necessary to obtain a loan for that amount. In June 1994, the defendants brought Mr. Blobby to New York for his American debut at the International Licensing and Merchandising Conference and Exposition and began actively marketing Mr. Blobby in the United States. Shortly thereafter, Murray obtained American counsel under a contingent fee arrangement. This action ensued. Although it appears that no Mr. Blobby products have yet been produced for the American market, Murray has also filed suit against several alleged licensees, which is still pending in the Southern

District. As noted, Judge Stanton dismissed the action against the BBC and Lionheart on the ground of *forum non conveniens,* [cit], and Murray brought this appeal.

DISCUSSION

1. Deference to Murray's Choice of Forum

The doctrine of *forum non conveniens* permits a court to "resist imposition upon its jurisdiction even when jurisdiction is authorized by the letter of a general venue statute," [cit], if dismissal would "best serve the convenience of the parties and the ends of justice." [cit]. There is ordinarily a strong presumption in favor of the plaintiffs choice of forum. [cit]. Where a foreign plaintiff is concerned, however, its choice of forum is entitled to less deference. [cit]. The Supreme Court has emphasized that this rule is not based on a desire to disadvantage foreign plaintiffs but rather on a realistic prediction concerning the ultimate convenience of the forum . . .

Murray quarrels with neither the rule concerning foreign plaintiffs nor the reason underlying it. Instead, he argues that his choice of an American forum must, as a matter of law, be accorded the deference given domestic plaintiffs because of the Berne Convention for the Protection of Literary and Artistic Works, to which both the United States and the United Kingdom are signatories. This is a matter of law that we review *de novo*.

The Convention provides in pertinent part that "the extent of protection, *as well as the means of redress afforded to the author to protect his rights*, shall be governed exclusively by the laws of the country where protection is claimed." Berne Convention for the Protection of Literary and Artistic Works, Paris Text, July 24, 1971, Art. V(2), . . . Under the Berne Convention, Murray argues, he is deemed to be in the shoes of an American plaintiff and entitled to greater deference in his choice of forum than the district court believed. The principle set out in Article V, paragraph 2 of the Berne Convention is one of "national treatment," [cit], a choice-of-law rule mandating that the applicable law be the copyright law of the country in which the infringement occurred, not that of the country of which the author is a citizen or in which the work was first published. [cit]. Murray argues, in essence, that the principle of national treatment contained in the Berne Convention mandates procedural opportunities identical to those accorded American plaintiffs alleging copyright infringement. We disagree.

Murray relies on Irish Nat'l Ins. Co. v. Aer Lingus Teoranta, 739 F.2d 90 (2d Cir. 1984), in which we held that the Treaty of Friendship, Commerce and Navigation between the United States and Ireland required the application of the same *forum non conveniens* standards to the Irish plaintiff as a court would have applied to a United States citizen. *Id.* at 91-92. However, we do not agree that *Aer Lingus* applies in the instant matter. The Treaty of Friendship, Commerce and Navigation between the United States and Ireland provided for "national treatment with respect to . . . having access to the courts of justice." *Id.* at 91 (internal quotation marks and citation omitted). In contrast, the national treatment provision of the Berne Convention contains no such language. We are confident that the inclusion of the quoted language in the Treaty with Ireland was

not superfluous, and its omission in the Berne Convention was no oversight. When drafters of international agreements seek to provide equal access to national courts, the long-established practice is to do so explicitly. The United States first concluded a treaty with such a provision in 1775, [cit], and explicit "access to courts" clauses appear regularly in treaties to which the United States is a signatory. Indeed, over a dozen treaties have included such language since 1990.

History and practice thus teach that a principle of equal access must be explicitly adopted. In the absence of such an explicit provision in the Berne Convention, we cannot construe a simple declaration of "national treatment" to imply such a principle and to extend *Aer Lingus* and cases following it to this case. [cit].

. . .

2. Existence of an Alternative Forum

When addressing a motion to dismiss for *forum non conveniens*, a court must determine whether an alternative forum is available, because application of the doctrine "presupposes at least two forums in which the defendant is amenable to process." [cit]. The requirement of an alternative forum is ordinarily satisfied if the defendant is amenable to process in another jurisdiction, except in "rare circumstances" when "the remedy offered by the other forum is clearly unsatisfactory." The BBC can obviously be sued in the United Kingdom. Murray argues, however, that he is financially unable to litigate this dispute in England because a contingent-fee arrangement is not permitted in this kind of case. In his view, this professed inability to bring suit renders the English forum unavailable as a matter of law. We review this legal issue *de novo* but disagree with Murray.

. . .

3. The Balancing of Interests

. . .

Murray argues that two public interest factors weigh strongly in favor of permitting his American action to go forward. First, he argues that American copyright law will apply to his copyright infringement claims arising in the United States, militating in favor of an American forum. Murray argues second that the district court erroneously failed to acknowledge that the United States has localized interests in this controversy: the "obvious interest in securing compliance with this nation's laws by citizens of foreign nations who have dealings within this jurisdiction," London Film Productions Ltd. v. Intercontinental Communications, Inc., 580 F. Supp. 47, 49 (S.D.N.Y. 1984), and an interest in whether Mr. Blobby merchandise will be available for sale in the United States. Once again, we disagree.

We are, quite frankly, at a loss to see how this lawsuit has any but the most attenuated American connection. The central issue in dispute concerns the circumstances surrounding the creation of Mr. Blobby. Once that dispute is resolved, the right to exploit the character will be quickly resolved. The crux of

the matter, therefore, involves a dispute between British citizens over events that took place exclusively in the United Kingdom. Moreover, it appears that much of the dispute over the creation of Mr. Blobby implicates contract law. British law governs those issues. The United States thus has virtually no interest in resolving the truly disputed issues.

The Berne Convention's national treatment principle insures that no matter where Murray brings his claim, United States copyright law would apply to exploitation of the character in this country. We therefore see little chance that the United States' interest in the application of its laws would be ill-served by a lawsuit in an English forum. Murray makes a great deal of the need to bring additional litigation in the United States to enforce his copyright if this matter is dismissed in favor of an English forum. However, he has offered no reason why his action against the American licensees of Mr. Blobby, currently pending in the Southern District of New York, may not be placed on the suspense calendar pending a resolution of the truly disputed issues in the English courts. Again, once those issues are resolved, everything else will fall into place.

Finally, we note that the forum in which actual infringement of Murray's putative copyright has occurred is not the United States but England. It appears that no Mr. Blobby products have yet been produced for the American market. In virtually all respects, the connection of this case to the United States is as tenuous as its connection to the United Kingdom is strong. We therefore hold that the district court did not abuse its discretion in finding that the public interest factors militated in favor of dismissal.

[The Court also concluded that the district court had properly balanced the private interest factors, and that the financial difficulties Murray may encounter in litigating in England are not sufficiently severe to tip the private interest inquiry in Murray's favor.] We note first that the unavailability of contingent fee arrangements in England is of little weight in the present matter. The availability of such arrangements in the United States is based on a policy decision regarding the assertion of rights in American courts where the parties or the claims have some tangible connection with this country. The decision to permit contingent fee arrangements was not designed to suck foreign parties disputing foreign claims over foreign events into American courts. There is, therefore, no American policy regarding contingent fees that weighs in favor of resolving the underlying dispute over the rights to Mr. Blobby in an American court.

. . .

We affirm.

NOTES AND QUESTIONS

1. The principle of national treatment is in many respects a corollary of the principle of territoriality: the legality of conduct occurring in the United States will be determined by U.S. law, and the legality of conduct occurring in the United Kingdom will be determined by U.K. law. National treatment simply mandates that U.K. authors bringing a copyright action in the United States will be entitled to the same treatment as would an U.S. author, and that a U.S. author suing for copyright infringement action in the United Kingdom

will receive the same protection as would a British author. Did Mr. Murray receive national treatment? Why should the ability to enforce a copyright not be an essential part of the national treatment principle? (We will address different claims regarding the scope of the national treatment obligation in Chapter V-VII.) Are there other grounds upon which the defendants in *Murray* might have repelled the plaintiff's arguments based upon Article 5 of the Berne Convention?

2. As Professor Reichman notes, the national treatment provision of TRIPS reaffirms the fundamental principle found in the Berne and Paris Conventions. In the few years before the conclusion of the TRIPS Agreement, several nations had enacted new rights that they claimed were not subject to the national treatment obligations of the Paris and Berne Conventions because they were not subject matter covered by those conventions. Instead, these countries, such as the United States with semi-conductor chip protection, the United Kingdom as regards unregistered design protection, and the EU with respect to *sui generis* database protection, conditioned the protection of foreign authors, creators or designer on reciprocal protection being afforded their authors in the country from which the foreign national came. Why was there a flurry of reciprocity based rights in the years preceding the conclusion of TRIPS? Are there advantages to conditioning new forms of intellectual property protection on reciprocal protection? What does the incorporation of MFN obligations, which previously had no place in intellectual property treaties, do to the dynamic of international intellectual property relations?

III. THE PARIS CONVENTION

A. PATENTS

1. BEGINNINGS OF INTERNATIONAL PATENT COOPERATION

ERICH KAUFER, THE ECONOMICS OF THE PATENT SYSTEM 8-10 (1989)

In the German-speaking parts of Europe, monopoly privileges had a varied history. Empress Maria Theresa of Austria was unsympathetic, refusing to grant privileges because she found them "hoechst schaedlich" (highly detrimental). Her adversary, Frederik of Prussia, adopted a more receptive policy, granting numerous monopoly privileges for the introduction of new arts. Yet in Austria as in Prussia, monopoly privileges had been established in many trades as the nineteenth century dawned. There, as in the western European lands, they were widely disliked as misuses of royal prerogative.

This association between patents and monopoly privileges gave birth to an energetic anti-patent movement. The seeds were sown by the Napoleonic reordering of the German territories. Some territories in the Rhine area adopted the French patent law of 1791. The territories of southern Germany gave up the practice of privile ged grants. But soon "polytechnical associations" were founded, lobbying for the introduction of patent laws and, especially in Bavaria and Wuerttemberg, for tariff protection. By 1825, both kingdoms had laws granting patents on inventions that were new to the kingdom.

Tension rose as Prussia began to dominate policy among the German territories. In 1806, after its defeat by Napoleon, Prussia instituted reforms under which a new kind of civil servant, nourished inter alia on the ideas of Adam Smith, gained power. The Prussian government pushed for free trade among the German territories, and as remnants of mercantilist policy, patents were seen as a barrier to free trade. By 1862, all tariffs had been abolished inside Germany. In that same year, a free trade treaty with France marked the high point of the free trade movement's influence. The Prussian government argued concurrently that all patent laws in the German territories should be abolished

A similarly strong anti-patent movement led to the repeal of the Dutch patent law in 1869. In 1872, the British House of Lords accepted a substantial revision of existing patent law. Between 1849 and 1863, the Swiss parliament rejected four petitions to introduce a patent law .

However, strong counter-forces were also in motion. Prussia was an agrarian state at the beginning of the 19th century. Between 1850 and 1870, the German territories, especially the Prussian ones, were industrializing rapidly. Industrial leaders like the Siemens brothers, one working in Berlin and the other in London, organized pro-patent support groups. Second, world exhibitions emerged, and participation in them became a matter of national prestige. Germany received its first genuine recognition as an industrial nation at the Paris exhibition of 1867. Potential American participants refused to participate in the

Vienna exhibition of 1873 unless the German-nations agreed to provide provisional patent protection on the American inventions put on display. Third, the free trade movement in Prussia proved to have shallow roots. Since Austria under the Habsburg monarchy had adopted a strongly protectionist development policy, the creation of a German free trade area was a political tactic used by Prussia for excluding Austria from the German union. Once this goal was achieved, the free trade movement was supported less vigorously. Fourth, at the 1873 Vienna exhibition, a patent congress proposed to introduce into national patent laws strict compulsory licensing principles. To the extent that the proposal was accepted, it undermined the objection that patents were mere mercantilist monopoly privileges. Fifth and finally, the year 1873 marked the onset of a worldwide depression, which in turn precipitated a movement away from free trade and toward protectionism. Tariffs and patents now appeared to be important protectionist instruments.

With these changes, the anti-patent tide ebbed. In 1874, the British government backed off from the drastic patent reform proposal already approved by the House of Lords. In 1877, the German Reich adopted a patent law.

Switzerland played a wavering but pivotal role in the new patent law developments. Patent laws were rejected by popular referenda in Switzerland in 1866 and 1882. Nevertheless, Switzerland participated actively in drafting the Paris Convention, signed in 1883 by Belgium, Brazil, France, Guatemala, Italy, the Netherlands, Portugal, Spain, El Salvador, and Serbia as well as Switzerland. The Convention created mechanisms for world-wide patent grant coordination. Although it had no patent system of its own, Switzerland was charged with administering and supervising the Paris Convention. In accepting this role, the Swiss government agreed to initiate a domestic patent system as soon as possible. Meanwhile, Swiss public opinion was changing, in part because one of the largest Swiss industries, the watch industry, was experiencing intense competition from imitators. In July 1887, a Swiss patent statute was overwhelmingly approved in a referendum. However, because the newly emerging Swiss chemical industry still found it advantageous to imitate the technology of its more advanced German rivals, the Swiss law limited patentability to mechanical inventions only. This prompted the German Reich to threaten Switzerland with retaliatory tariffs. In 1907 Switzerland backed off, extending coverage under its patent law to chemical process inventions (but not product inventions)

NOTES AND QUESTIONS

"A Union of German Engineers 6th meeting in Braunschweig, 1863 urged the adoption of a German patent law. However, there was serious opposition to patents in the trading states of the German Zollverein. The Zollverein Treaty of 1842 made this anti-patent stance explicit. Conformably with Article III of this treaty, the parties pledged themselves not to grant patents under which the inventor would obtain the exclusive right: to import the patented object; to sell; to distribute, or finally to utilize. The patentees were permitted to prohibit only the manufacture of the object in the country concerned or the industrial use of machines, tools, or manufacturing processes. The basic

tendency of all these provisions is obvious. A patentee possessed the exclusive right of producing the object in his own country but he was not permitted to break through the domestic customs boundary either directly by prohibiting import, or indirectly by prosecuting those who carried on trade with imported patented goods. . . . [P]atent law reflects the economic polarity of nationalism seeking to exclude foreign competition and internationalism seeking to enter foreign markets." EMERSON STRINGHAM, PATENTS AND GEBRAUCHMUSTER IN INTERNATIONAL LAW 36 (Madison 1934). Is the right to exclude foreigners from a national market more important than the right of nationals to sell in foreign markets? To what extent are national patents seen as a barrier to free trade today, in league with tariffs? (The question of exhaustion of rights will be discussed *infra* Chapter IX in connection with parallel importation of patented goods.)

2. THE DEVELOPMENT OF INTERNATIONAL PATENT TREATIES

The United States first extended patent protection to foreigners in 1800, *See* Pennock v. Dialogue 27 U.S. 1 (1829). Under the French patent law of 1791 as revised in 1844, the printing of a patent in the United States or another country automatically destroyed novelty in France. So by seeking patent protection in one country, an inventor jeopardized his chances for gaining protection in other countries such as France upon publication of the first filing. European states other than Germany established patent laws in the middle years of the nineteenth century as a lure to attract foreign technologies: Spain (1826), Portugal (1837), Austria (1852), Belgium (1854), Italy (1859). Switzerland never had a patent law until 1907. Holland, a trading state, established a patent law by statute in 1817, but abolished it in 1869. Sweden's law of 1859 was limited to nationals. The 1854 Belgian patent act is still in force.

Historical events in the 1870's impelled the industrializing nations of Europe and the United States toward harmonization of patent laws. What emerged from the discussions during that decade became the foundation of the modern international patent system as we know it.

a. THE MAKING OF THE PARIS CONVENTION: THE CONGRESS OF VIENNA OF 1873

> In view of the great diversity of existing laws on the subject of patents for inventions, and the changes in the present international commercial relations, it is urgently important that the government seek, at the earliest possible date, to achieve an international accord on the protection of industrial property (patents for invention)

From the vouex of the Washington Conference of 1873.

HEINRICH KRONSTEIN & IRENE TILL, A REEVALUATION OF THE INTERNATIONAL PATENT CONVENTION

12 LAW AND CONTEMPORARY PROBLEMS, 765, 766-776 (1947)

The United States entered the [Paris] Union in 1887; Germany, the last industrial power to join, did so on May 10, 1901. As often happens in the history of treaties the actual decisions were reached before the first country signed. The creative period of the Union was between 1872 and 1881. During this period the negotiations on the international patent convention were the battlefield for three opposing philosophies: (1) the anti-patent movement, aimed at the destruction of the patent system; (2) recognition of patents as private property; (3) the recognition of patents as an instrument of public policy. Certainly the issue of patents versus no-patents had to be disposed of first. The fight on this point marked the first battle between the United States and the newly organized Germany of Bismarck.

The initial invitation for an international conference on patent rights came from the Austrian Government in 1872. The invitation specifically stated, however, that the suggestion came from the United States:

> . . . following a suggestion of the Government of the United States of America, the General Direction of the Universal Exposition intends to unite with the Exposition an International Congress, which shall discuss the question of patent right; should this discussion, as may be foreseen, induce a vote in favor of Patent protection, it will then be the task of this Congress, on the basis of the experience of various countries and the materials collected, to proceed to a declaration of fundamental principles for an International Reform of Patent Legislation.

American leadership in the conference was eagerly anticipated by the United States Commissioner of Patents. He wrote to the Secretary of the Interior on May 29,1873:

> I regard the patent congress to be held at Vienna of the very greatest importance and the world looks to this government for the presentation of matters for consideration and discussion. If the American system can be properly presented before that Congress, discreetly and cautiously sustained with facts and figures, I feel confident that the best results can be expected.

The very fact of American parentage elevated the prestige of the conference. The proposal for international patent protection did not come from the semi-feudal country of Austria, conspicuously lacking in industrial development; it came from the United States, already at the forefront industrially and with the strongest patent system in the world.

The invitation stated the issue between the patent and the anti-patent forces in forthright manner:

> There exists today an antipatent movement which since 1860 has extended too far and the causes of which movement bear, in part at least, too much upon views which are generally acknowledged

> by the economical progress of our age, to justify at this time as hitherto a partial solution of that problem. The complete abolition of all Patents for inventions, such is the motto of this movement; Patent protection, the maintenance and improvement of the existing Patent law, if possible in simple form, and by international agreement: such is the watchword of the other. The present condition of Patent legislation in the most enlightened and progressive countries shows on which side the majority stands; with the exception of Switzerland and with her, Holland, which recently abolished her Patent law, the legislation of all the other Industrial States today recognizes the protection of Patents as a necessity.

Germany, as the leader of the anti-patent movement, is not mentioned in the invitation, reference being made only to Holland and Switzerland. There is no doubt, however, that it was the larger country which the organizers of the conference really had in mind. As early as 1868 Bismarck, as Chancellor of the North German Federation, had gone on record as hostile to any form of patent protection. On May 10, 1872, the German Parliament discussed, for the first time in the history of the German Reich, the patent problem. There the position of Bismarck was made even clearer. His representative announced that it would not be undesirable "if the Parliament would use the opportunity of the discussion to express itself in favor of the full abolition of patent protection;" in Bismarck's opinion, the example of Holland deserved to be copied. However, it was pointed out to the Parliament that public opinion in Germany might be unprepared for the step:

> . . . since only people who have a private interest in patent protection can express their views in public . . . The Society of German Engineers has repeatedly and actively come out in favor of patent protection. However, not all engineers share this opinion; only considerations for influential interests prevent them from expressing their opinion in public.

Thus, in the summer of 1872, the issue was joined. The organizers of the conference were fully aware that, in a competitive business economy, the world could not live half with patents and half without patents. The invitation to the conference sets forth the interdependence among national patent systems in the following classical statement:

> We live no longer in the day of Industrial action, which is strictly confined and is removed from foreign competition, and where slow communication prevents or delays the utilization of inventions. We live at a time of liberal Customs policy; Steam and Electricity have newly united once isolated seats of industry in a way undreamt of; and the mutual exchange of goods shows today a magnitude which a generation ago one could not have imagined. Under such altered relations the Patent granted for an invention in one country becomes in fact a restriction

> unprofitable and obstructive, if the same invention without limitation or increase in price, becomes in an adjoining country common property. The artisan who in the one country must work with the auxiliary material there patented and therefore dearer in price, will suffer an essential injury as soon as the same material is produced in the other country, not only without restriction, but with a damaging competition. Moreover a continuance of the hitherto antagonistic views and measures would scarcely conduce to the preservation of general harmony; and if, for example, Patent protection were maintained in one country, so as to attract thereby skilled operatives from another, then the danger of disturbance of the International industrial balance might readily be apprehended. Such and similar inconveniences can only be met by the common action of all civilized States, disposed to the maintenance of Patent protection.

The American delegation to the Vienna conference was an able one. The Assistant Commissioner of Patents, J. M. Thatcher, headed the group; his experience and knowledge of the United States patent system gave him a leading role in the negotiations. Unlike many American delegations to international conferences, it was also well prepared. M. D. Leggett, Commissioner of Patents, recommended that our representative should: . . . Present and explain the American Patent System, calling special attention to:

> 1. The justice and expedience of granting patents for new and useful inventions to *original inventors*, and to such only.
> 2. The importance of thorough preliminary Official examination to determine the questions of novelty.
> 3. The influence of our Patent System upon the industrial interests of the country.
> 4. The liberal spirit of our Patent Laws towards the citizens of other countries.
>
> In addition, he should press as a matter of justice between nations, that:
> 1. Mere importers should not receive patents.
> 2. That patents granted in one country to citizens of another, should not be subject to such restrictions as to time and place of manufacture, as to render such patents comparatively worthless.
>
> He of course should be instructed to make no concessions that can be interpreted as abandoning any of the essential features of our system.

Thatcher's own report indicates the tenor of the conference. He said:

> It was the general, I may say universally expressed, opinion in

> the congress at Vienna that in order to secure the advancement of the mechanic arts in their own countries and to prevent the emigration of their most skilled artisans, it was necessary to secure a reform in European patent legislation.

Count Andrassy, the premier of the Austrian Government, put it in a very few words during an interview with the permanent committee when he said:

> I look to England and I look to America, and I find that they are the foremost countries of the world in manufactures. I find also, upon examining their laws, that they have the best patent systems in the world.
>
> Putting these two facts together, I conclude that the one is dependent upon the other, and therefore I am in favor of a thorough reorganization and revision of the patent laws of Austria.

The Vienna conference made this general attitude manifest in its set of resolutions. It declared that the existence of a patent law was a requirement "of all civilized nations;" and foresaw "great injury . . . inflicted upon countries which have no rational patent laws by the native inventive talent emigrating to more congenial countries where their labor is legally protected." The conference endorsed the "English, American, and Belgian patent laws, and the draft of a patent law prepared for Germany by the society of German engineers" (Bismarck's opponents!). One small bone was thrown to the opponents of an air-tight patent system. A recommendation provided:

> It is advisable to establish legal rules, according to which the patentee may be induced, in cases in which the public interest should require it, to allow the use of his invention to all suitable applicants, for an adequate compensation.

Later this resolution was described by one of its drafters as mere propaganda against the enemies of patents.

Thus the Vienna conference was an outstanding American victory, won by a purposeful policy. It is an anticlimax to read in the interdepartmental correspondence that at the last moment the State Department lacked sufficient funds to send an American representative unless he could personally assume a substantial share of the cost of the trip.

Bismarck immediately found himself confronted with a combined attack from within and without Germany. The Society of German Engineers was already hard at work; and now it had the added prestige of powerful support from abroad. Bismarck was forced to retreat. In 1876 he called a committee of experts to study the patent situation. In February, 1877, he submitted a patent bill to Parliament. The eminent Charles Lyon-Cacn made the following observations on this development:

> A complete understanding of this important bill depends on an understanding of the principles which motivate the government.

> The government has never admitted that the institution of patents has anything to do with its ideas of justice. The government does not even seem to be convinced that the patent system actually favors the progress of industry. It suggested the passing of the bill only because Germany cannot stand isolated in the middle of all great nations which have patent statutes. In fact, the government in its memorandum explaining the new step stated: "Germany, resolved to suppress the patent system, could effectively take steps to this end only if other countries were expected to follow. This is, however, more than doubtful; and such a step would certainly result in the complete isolation of Germany for many years.

III.

The American victory in the issue of patent *versus* no-patent, decisive as it was, merely transferred the battlefront to the next stage. This was the issue of patents as private property rights as against patents as instrument of public policy. The impending struggle was foreseen in the American-Austrian discussions of 1872. The American Government opened the dispute by complaining against the Austrian principle providing for forfeiture of patent rights if local manufacturing were not begun within one year from the grant of the patent. Here was a clear statement of the issue. John Jay, then American Ambassador in Vienna, pointed out to the Austrian Minister for Foreign Affairs on March 17, 1872:

> It has been suggested that the differences in the statutes of different countries, in regard to patents, may be generally traced to a difference in the general view taken of the character and position of the patentee; whether he is looked upon as a monopolist who owes all his rights to exceptional law, and who must be jealously watched and severely restricted; or whether he is regarded as a public benefactor, who is to be tenderly and kindly treated. The legislation of Congress has inclined more and more to the latter view; and, while adopting, as the true principle, that the inventor and public are both to be treated rationally, justly, and impartially, its tendency has been to give more and more liberally encouragement and assistance to useful inventors.

John Jay frankly assured Count Andrassy that the President would "cordially embrace this opportunity of cementing the friendship of the two countries and of advancing their common interests by a generous and harmonious policy"—if only Austria would modify its patent law in conformity with the United States statute and would agree to full reciprocity in matters of patents between the two countries.

This American view toward patents was novel. It stemmed from an actual faith that, in a competitive economy, patents under the control of private

owners would not be subjected to abuse.[1] "He has no such duty with reference to the period of his monopoly at all. The only duty he has is to spread the description of the invention on the records of the Patent Office, so that *after* the monopoly has expired, whether it be in fourteen, or seventeen, or twenty-one years, it will be free to the world. He has no duty publish that invention, or introduce it during the life of the monopoly; and if he chooses to let it die as useless, there is no law or reason why he shall not be permitted to do so. . . . As I understand the theory of the law, it is his *absolute* property during the life of the monopoly and is *not* qualified. Indeed, that is the language of the Constitution itself, viz., that the right is exc lusive. . . ." Arguments before the Committee on Patents of the U.S. Senate and House of Representatives, Misc. Doc. No. 50, 45th Cong., 2d Sess. 36 (1878).

The files of the United States Patent Office contain a constant reiteration of this theme; they reveal an absolute faith in the beneficent effects of an uncontrolled patent system. It was precisely this freedom, it was believed, which accounted for the rapid technological advance in the United States.[2]

In consequence, the Patent Office violently opposed any kind of governmental interference—whether against foreign inventors in this country or American inventors abroad. At every opportunity in the correspondence of the patent commissioners with foreign patent offices—through State Department channels or in direct negotiation—the view is developed that only international cooperation and mutual recognition of private property in patents can serve the final aim of the highest technological advance everywhere. The constant reiteration of this gospel by the most highly industrialized country in the world was bound to have an enormous effect.

But such an approach was in direct conflict with established tradition abroad. The American philosophy was genuinely new. True, the speeches of the French Revolution were aflame with this doctrine; Mirabeau exultantly speaks of inventions and patents as private property equal to any other form of private property. But, in fact, the French never drew the logical conclusion from these theories. The patent statute of France after the Revolution provided that patents should be forfeited in the event that patented goods were imported into France. Such a provision was a clear denial of the private property aspect of a patent, and made patents an instrument of public policy to bring manufacturing plants into France. This law still existed at the time of the Vienna conference.

The English patent statute of 1623 had the same purpose. . . . Obviously, the American view expressed in John Jay's letter had nothing in common with the traditional European approach. The question for the Germans—once they had abandoned their original hostility to the patent system—was which view they would adopt. Quite naturally they turned to the early English position. They were newcomers in the industrial hierarchy; they had all of the anti-monopolistic attitudes of the upstart competitor. They immediately adopted the position that patents should not be granted as a matter of right to every inventor, but should be permitted only in those fields in which the public interest justified the grant. Nor were they prepared to look upon patents as private property, to be granted to outsiders without limitation. Patents were a qualified right, subject to governmental interference in the interest of the nation.

Bismarck's committee of experts meeting in 1876 was fully dominated by this older view. One of its members was founder of the Siemens Combine. He was already concerned about the possibility that American Edison and British Thomson-Houston would take out many patents in Germany — before the German firms could develop their own research. He said bluntly:

> You might consider a rule that patentees are bound to grant licenses as an interference with the right of the inventor; but such a rule is absolutely necessary. The interests of [German] industries require that licenses be made available as a matter of right. Today industry is developing rapidly; and as a result monopolization of inventions and abuse of patent rights will inevitably expose large segments of industry to serious injury. The government must protect industry against these dangers. From abroad another danger may arise. Inventive work is far more developed in England, United States and France than in Germany. Up to the present the number of patents taken out in Germany by foreigners has been small because the scope of protection given to the inventor has been insufficient. New legislation will lead to a substantial increase of foreign patentees. We shall experience a wave of foreign—particularly American—patent applications. These patents will not be taken out in order to protect industrial plants established or to be established in Germany; they will be taken out to monopolize production abroad. These articles will be imported into this country.
>
> Such a danger must be met. It is not enough to provide that foreign patentees be required to submit "evidence" that they have established a plant in Germany. Such evidence may be mere "shadow"; they can merely keep a small domestic production going to maintain their patents. The French have an effective weapon—a rule that patents shall be forfeited if an inventor imports or permits others to import patented goods. However, the French method is inconvenient to trade interests, and would meet serious objection here. The requirement of actual manufacture under the patent would be excellent if the patentee were forced to show production in such quantities that domestic needs are actually met.
>
> The same end can best be achieved by requiring that licenses be granted. The administration of this plan may be difficult. But the administrative agencies and the courts should be able to meet the difficulties and to come to a modus vivendi. Royalties should be based on the importance of the inventions. . . . Siemens ended with the proposal that licenses of right should be made available at the end of the fifth year of patent protection. He felt that any other arrangement would be inconsistent with the public interest.

This same meeting was attended by one of the founders of the Hoechst Farbwerke, predecessor of I. G. Farben. Bruening took the position that the entire chemical industry should lie outside of patent protection. He said:

> In the chemical Industry the most harmful effects of patents are

> made clearly evident. Patents in France and England prevented the development of new chemical branches such as the manufacturing of aniline and alizarin dyes. Invention in chemical technology consists largely in an idea, and the practical exploitation of this idea usually involves enormous difficulties. In England and France patents for the manufacturing of aniline and alizarin dyes have been issued to the inventors who have not succeeded in the effective exploitation of their invention. In those countries monopolistic organizations came into existence which could not themselves produce and their major function was to prevent the development of other plants. In Germany, however, the chemical industry was able to expand because no patent protection prevented the free play of competition.

In the meantime the American view of patents as private property came into popularity in other countries. Between 1873, the year of the Vienna conference, and 1878, the year of the Paris convention, the American view prevailed in all the following formula was submitted at the Paris meeting:

> The right of inventors and industrial creators in their own work or the right of the industrialists in their trademarks is a property right which has its basis in natural law. The law enacted by each nation does not create these rights but only regulates them.

The Swiss delegation joined issue by offering a counter motion:

> The rights of the inventor and creative worker are a creation of equitable and useful principles of the law of each nation which should reconcile this right of the inventor, based on the grant of a temporary monopoly, with the rights of society.

The Swiss motion was voted down and the "property" motion won, though the clause "which has its basis in natural law" was eliminated.

Once an international convention declared inventions and patents a type of private property, it was only logical to grant to the "owners" of such property equal protection under the law, whatever their nationality might be. In the philosophy prevailing at the end of the nineteenth century, no principle was more sacred than the mutual protection of the vested interests of private property. Once patents were recognized as a type of private property there was no possible justification for the continuance of the forfeiture penalty for importation of patented goods or for the harsh rules respecting working clauses. The French system broke down almost immediately, and the working clauses gradually fell into disuse. The priority rule made its obsequious entry as a simple convenience for the property owner.

Germany continued to remain outside of the convention during the Eighties and mid-Nineties. In that country the scope of the patent grant was limited in the interest of encouraging further invention, and patents were subjected to compulsory licensing. But in 1897, at the Brussels convention,

Germany appeared and prepared the way for her retreat. One of her major concerns was the elimination of the working clause. To this end she won the ardent support of the United States.

In 1901 Germany joined the Union. In a short time she became, along with the United States, the most ardent defender of the Union. In the later conferences the two countries worked together effectively to strengthen the protections accorded the patentee. In fact, the International Patent Convention can now almost be referred to as an American-German patent alliance.

NOTES AND QUESTIONS

1. The Congress of Vienna of 1873, at which the French government was not represented, adopted the principle of preliminary examination and the policy of no forfeiture for failure to work the invention within a country. This was countered by the French at the Paris Congress of 1878 which adopted the principle of forfeiture for nonworking of the invention within and eliminated preliminary examination. This development led to a deadlock between the parties on most substantive provisions in the negotiations leading up to the eventual signing of the Paris Convention in 1883. What remained was virtually all procedural: the national treatment provision of Article 2 and the right of priority of Article 4, with the provisions on forfeiture, requirements to work the patent within any country where patent protection was sought forming the next stage of international negotiations. The history of Article 5 will be discussed below.

2. At the time of the Paris Convention, Switzerland participated actively although it did not have and had never had a patent law. Under the principles of national treatment enshrined in Article 1, Switzerland was not required to protect inventions by patents even though Swiss inventors would enjoy patent protection in other countries of the Union which did provide patent protection. Is this fair? Efficient? Patent laws were rejected by popular referenda in Switzerland in 1866 and 1882. When Switzerland agreed to administer and supervise the Paris Convention, it also agreed to enact a patent law. Such a law passed overwhelmingly in 1887 (by referendum) with the support of the Swiss watch industry, but chemical processes were excluded until 1907, when the law was changed due to threats of tariff retaliation from Germany, where the chemical industry was strong. (The examination of inventions in the watch industry arts is still treated as a special case under Swiss law.) Does this example indicate the strength of national treatment or its opposite, reciprocity, as the basis for international recognition of rights?

3. Putting the question another way, to what extent is an international agreement providing patent protection for foreign nationals a question of reciprocal national self-interest and to what extent is it international public policy? Is it a "compact between the individual countries party to it with reciprocal rights and obligations, or an instrument seeking to regulate interests, claims, and demands pressing upon the national and international level?" STEPHEN P. LADAS, 1 PATENTS, TRADEMARKS AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION 12 (1975).

4. At the Washington Patent Conference of 1874, the U.S. position

was that "only the inventor himself, or his [sic] legal representative, should be entitled to a patent." At the same time, "the applicant in German law was not required to be himself the inventor, patents were granted without any question of authorship to the first comer." STRINGHAM, *supra*, at 53, 144. Is this an ideological or a practical distinction? This will be discussed further below in the context of Article 4*ter* of the Paris Convention.

b. THE PARIS CONVENTION OF 1883 AND THE RIGHT OF PRIORITY

Notwithstanding false starts and setbacks during the decade-long course of deliberations leading to the signing of the Paris Convention in 1883, its legacy has been an unmitigated success. Article I creates the Paris Union, the deliberative body of the convention. As noted above, although it had no patent system of its own, Switzerland was charged with administering and supervising the Paris Convention and agreed to initiate a domestic patent system as soon as possible. WIPO became a specialized agency within the United Nations Organization system in 1974. That event ushered in a new period in international intellectual property law, as the post-colonial states of Africa and Asia became participants in what had up until then been a club of developed nations.

Articles 2 (national treatment) and 4 (right of priority) of the Paris Convention form the bedrock of the international patent system. The right of priority (including the difference between priority of invention in the U.S. first to invent system and priority of application in the first to file system employed in the rest of the world) were touched upon briefly in the discussion of the basic principles of patent law in Chapter II. But friction between the first to invent system and the first to file system over the right of priority must be dealt with in greater detail to explore how inventors from first to file countries are treated in a first to invent system and vice versa. The principles of national treatment and right of priority are inseparable.

The first to file system is simpler because it eliminates the need for costly interference proceedings. According to Article 4(3) of the Strasbourg Convention of 1963, *see infra* page __, and EPC Article 54(3), an unpublished patent application is viewed as part of the prior art for purposes of determining novelty of an invention in a later filed application. This is necessitated by the very logic of a first-to-file patent system. There are two main motivations behind the first-to-file systems both of which are based upon economic efficiency. First, there is the incentive of the "race to the Patent Office," which encourages inventors to disclose their inventions to the public earlier rather than later. In the first-to-file systems, patent applications are generally published after 18 months, and competitors are blessed with relatively inexpensive and timely access to patent information. A second motive is to increase certainty as to patent ownership and thereby decrease legal transaction costs, since interference proceedings are eliminated. The motives behind the U.S. first-to-invent system are more complex, and relate to what are genuinely perceived to be the venerable traditions and exceptionalism of the U.S. patent system.

A key development in the early establishment of international patent law was the adoption in 1883 of the principle of "convention priority" in Article 4 of

the Paris Convention. Under this principle, the date of a patent application in one member state is accepted as the date for establishing priority of invention for that applicant in any of the other member states where a counterpart application is filed within a period of months (originally six, and now twelve) in the second country. A certain amount of friction has arisen between the United States, with its first-to-invent system, and countries which have a first-to-file system, because the fundamental differences between the two systems are difficult to reconcile.

35 U.S.C. §102. Conditions For Patentability; Novelty

A person shall be entitled to a patent unless—

> . . .
> (e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or
> . . .
> (g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY, ARTICLE 4 (1883)

A. (1) Any person who has duly applied for a patent . . . in one of the countries of the Union, or his legal representative or assignee, shall enjoy for the purposes of registration in other countries a right of priority during the periods hereinafter stated.

(2) Any filing having the value of a formal national filing by virtue of the internal law of each country of the Union or of international treaties concluded among several countries of the Union shall be recognized as giving rise to a right of priority.

B. Consequently, subsequent filing in one of the other countries of the Union before the expiration of these Periods shall not be invalidated *through any acts accomplished in the interval, as, for instance, by another filing,* by publication of the invention or the working thereof, by the sale of copies of the design or model, or by use of the trade mark, and these facts cannot give rise to any right of third parties or any personal possession. The rights acquired by third parties before the day of the first application on which priority is based shad be reserved by the internal legislation of each country of the Union. [emphasis added]

. . .

APPLICATION OF HANS HILMER

359 F.2d 859 (CCPA 1966)

[Habicht first won an interference over Hilmer in which he was held to have a right of priority on a single count (a "count" refers to subject matter corresponding to a claim) as of the date of his original Swiss application on January 24, 1957. Hilmer had filed his original application in Germany on July 31, 1957. Then Habicht filed his U.S. counterpart application on January 23, 1958. Finally, Hilmer filed his U.S. counterpart application on July 25, 1958. Habicht's disclosure included additional subject matter which Hilmer disclosed and claimed. The examiner rejected Hilmer's application as obvious by combining the Habicht disclosure with another reference. The Patent Office Board of Appeals affirmed, and held that Habicht's disclosure had effect as prior art as of his foreign filing date in Switzerland, under 35 U.S.C. § 119, which is entitled 'Benefit of Earlier Filing Date in Foreign Countries: Right of Priority'. The Court of Customs and Patent Appeals reversed, holding that Section 119 only deals with 'right of priority' and does not provide for the use of an entire U.S. patent as an anticipatory reference as of its foreign filing date.]

RICH, Judge. . . . A patent may be 'entitled' to a foreign filing date for some purposes and not for others, just as a patent may be 'used' in two ways. A patent owner uses his patent as a legal right to exclude others, granted to him under 35 U.S.C. § 154. Others, wholly unrelated to the patentee, use a patent, not as a legal right, but simply as evidence of prior invention or prior art, *i.e.*, as a 'reference.' This is not an exercise of the patent right. This is how the Patent Office is 'using' the Habicht patent. These are totally different things, governed by different law, founded on different theories, and developed through different histories. . . . [T]he board said:

> The Examiner insists, however, that the effective date of the Habicht patent is January 24, 1957, the date of an application filed in Switzerland which is claimed by Habicht under 35 USC § 119. Appellants have not overcome this earlier date of Habicht. The issue is hence presented of whether the foreign priority date of a United States patent can be used as the effective filing date of the patent when it is used as a reference (and this is the second statement of the issue by the board.) Our conclusion is that the priority date governs. . . .

This is the decision alleged to be in error. We think it was error. . . . While it may be that the world is shrinking and the very concept of 'foreign' should be abolished for the good of mankind, this is not a constitution we are expounding but specific statutes enacted to accomplish specific purposes, the meaning of which should stay put, absent intervening Congressional modifications, for well-understood reasons. . . . The board's conclusion is that the foreign priority date of a U.S. patent is its effective date as a reference. . . . [T]he board's statement is:

> Our conclusion is arrived at simply by considering sections

> 102(e) and the first paragraph of section 119 of the statute together. . . . . .
>
> Section 119 refers to two applications for the same invention stemming from the same inventor, one a first application filed in a foreign country and the other a later application filed in the United States. . . . Section 119 provides that under the specified circumstances, and subject to the requirements of the second paragraph which are not in question here, the second application, filed in the United States, 'shall have the same effect' as it would have if filed in the United States on the date on which the application was filed in the foreign country. This language is plain; it gives the application the status of an application filed in the United States on a particular date. Section 102(e) provides that a patent may not be obtained if the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant. This paragraph makes the filing date of a U.S. patent (note the omission of 'in the United States') the effective date as a reference. It refers to an application filed in the United States and since section 119 provides that the application shall have the same effect as if filed in this country on a particular date, these two provisions must be read together and the filing date of the foreign application becomes the effective date of the United States reference patent.

This is so plausible that one's impulse is to say "Q.E.D." We find the reasoning at fault, however, and the interpretation untenable. To discuss it we must have section 119 before us, insofar as applicable:

> § 119. Benefit of earlier filing date in foreign country; right of priority. An application for patent for an invention filed in this country by any person who has, or whose legal representatives or assigns have, previously regularly filed an application for a patent for the same invention in a foreign country which affords similar privileges in the case of applications filed in the United States or to citizens of the United States, *shall have the same effect* as the same application would have if filed in this country on the date on which the application for patent for the same invention was first filed in such foreign country, if the application in this country is filed within twelve months from the earliest date on which such foreign application was filed; *but* no patent shall be granted on any application for patent for an invention which had been patented or described in a printed publication in any country *more than one year before the date of the actual filing* of the application in this country, or which had been in public use or on sale in this country more than one year prior to such filing.
>
> No application for patent shall be entitled *to his right of*

> *priority* unless (here follows the requirement for filing certain papers in the Patent Office and claiming priority not in question here, as the board held) * * *.[Emphasis ours]

The board's construction is based on the idea that the language of the statute is plain, that it means what it says, and that what it says is that the application filed abroad is to have the *same effect* as though it were filed here--*for all purposes*. We can reverse the statement to say that the actual U.S. application is to have the same effect as though it were filed in the U.S. on the day when the foreign application was filed, the whole thing being a question of effective date. We take it either way because it makes no difference here.

Before getting into history, we note first that there is in the very words of the statute a refutation of this literalism. It says 'shall have the same effect' and it then says 'but' for several situations it shall *not* have the same effect, namely, it does not enjoy the foreign date with respect to any of the patent-defeating provisions based on publication or patenting anywhere in the world or public use or being on sale in this country *more than one year before the date of actual filing in this country*.

As to the other statute involved, we point out that the words of section 102(e), which the board 'simply' reads together with section 119, also seem plain. Perhaps they mean precisely what *they* say in specifying, as an express patent-defeating provision, an application by another describing the invention but only as of the date it is '*filed in the United States.'*

The great logical flaw we see in the board's reasoning is in its premise (or is it an a priori conclusion?) that 'these two provisions must be read together.' Doing so, it says [Section] 119 in effect destroys the plain meaning of 102(e) but the board will not indulge the reverse construction in which the plain words of 102(e) limit the apparent meaning of 119. We see no reason for reading these two provisions together and the board has stated none. We believe, with the dissenting board member, that [Sections] 119 and 102(e) deal with unrelated concepts and further that the historical origins of the two sections show neither was intended to affect the other, wherefore they should not be read together in violation of the most basic rule of statutory construction, the 'master rule,' of carrying out the legislative intent. . . .

SECTION 119

We shall now take up the history and purpose of section 119. The board opinion devotes the equivalent of four pages in the printed record to a scholarly and detailed review of the history of section 119 with all of which we agree, except for the interwoven conclusions as to its meaning as it bears on the effective date of a U.S. patent used as a reference.

The board shows that the predecessor statute (R.S. 4887), containing the words 'shall have the same force and effect,' was enacted March 3, 1903 (32 Stat. 1225). Theodore Roosevelt signed it into law. The bill was drafted and proposed by a Commission created by Act of Congress in 1898 (30 Stat. 431) to study the effect of the Convention of Paris for the Protection of Industrial Property of 20th March 1883, which was under revision at Brussels even as the Commission

deliberated, the revision being adopted at Brussels on 14th December 1900. (It was last revised at Lisbon on 31st October 1958.) The Commission made a report November 27, 1900, printed in 1902, entitled 'Report of the Commissioners Appointed to Revise the Laws Relating to Patents, Trademarks, and Trade Names, with Reference to Existing Conventions and Treaties,' which is fairly descriptive of its purpose. The section entitled 'The Revision of the Patent Law,' which we have read, extends from page 6 to page 39. It begins by saying (p. 6):

> We have found it desirable in considering the question of revision of the patent law to first consider what changes in the law are needed to give full force and effect to the treaty obligations which the United States has undertaken touching the protection of inventions made by the subjects or citizens of certain foreign countries.

Under the heading 'Priority Under the Convention,' it says: The second provision of the Convention to be noticed, and one which may be of very great advantage to those of our citizens who desire to secure patents in foreign countries for their inventions, is that contained in article 4, and relates to the so called 'delay of priority,' or 'period of priority.'

It then explained that in most countries no valid patent can be obtained if before the application is filed, the invention has been described in a printed publication, either in the country of application or even, as in the case of France and six other countries, in any country; that the same was true as to public use of the invention; and that the convention gives applicants in member countries a period (then 7 months, soon extended to 12) in which they can file applications in other countries after the filing in their own country and obtain valid patents notwithstanding publication or use in the interval and before the filing of the foreign application. This, it explained, is the 'delay of priority.' In plain English, it was the right of an applicant to have the foreign application treated at law as prior to the intervening publication or public use, though in fact it was not, by giving a right to that applicant to delay filing in the foreign country, instead of filing simultaneously with the home application, yet have it treated as though filed on the date of the home application. This is what today we call simply 'Convention priority,' or just 'priority.' The foreign filing date is the 'convention date' or the 'priority date.' This priority right was a protection to one who was trying to obtain patents in foreign countries, the protection being against patent-defeating provisions of national laws based on events intervening between the time of filing at home and filing abroad. Under the heading 'Recapitulation of Advantages Secured by the Convention,' the Commission said, so far as relevant here:

> The advantages to our citizens in the matter of patents directly afforded by the convention may be thus recapitulated.
> First. The enjoyment in foreign countries of equal rights with subjects or citizens of those countries.
> Second. The 'delay of priority' of seven months within which to

> file applications abroad after filing in this country.
> Third. The privilege of introducing articles embodying the invention manufactured in this country into foreign countries to a certain extent without thereby causing the forfeiture of the patents taken out there.

Note the emphasis repeatedly placed in the Commission Report on advantages to United States citizens. It was felt we should do what was necessary to comply with the reciprocity provisions to enjoy the benefits of the convention for our own citizens. It was also believed that by reason of Opinions of Attorneys General, Vol. 19, 273, 'the International Convention, in so far as the agreements therein contained are not in accordance with the present laws of the United States, is without force and effect; that it is not self-executing, but requires legislation to render it effective . . . and . . . it is our opinion that such legislation should be adopted. . . .' (Report p.19.) Specific to the question here, the Commission Report says:

> We are, therefore, of the opinion that an amendment to the law should be made, providing that the foreign application shall have, in case an application is filed in this country by the applicant abroad within the specified period, the same effect as if filed here on the day it was filed abroad.

The board thinks this 'shows the intention of the Commissioners' to create 'a status of (an application) having been filed in the U.S. for all purpose. . . .' In the context of this case, that means for the purpose of using a U.S. patent, obtained with a claim of priority, as a prior art patent to defeat the right of a third party to a patent on subject matter which does not patentably distinguish from anything that happens to be disclosed in such patent—or at least from anything disclosed 'relevant to the (there) claimed invention,' depending on which recent board opinion one looks at. We have read every word of the Commission Report looking for any suggestion of such a concept and have found none. All the board found was the above quotation. We deem it wholly inadequate as a basis for finding an intent to create a 'status' for an application—to say nothing of the patent granted thereon—'for all purposes.' There are other factors to consider which negative any such legislative intent.

There is another sentence in the Commission Report we should consider. . . . It called attention to the fact that in most foreign countries the patent is granted to the first to apply and said:

> The Convention has created an exception to the rule and made an application in any State of the Union for the Protection of Industrial Property of the same effect as an application in the country where an application is subsequently made within the time specified as a period of priority.

This couples very nicely with the wording of the first recommendation for a change in U.S. laws on page 27 where it was said:

> First. The application for a patent filed within seven [extended to 12] months of the filing of an application for a patent for the same invention in any foreign country which is a party to the International Convention should be given the same force as regards the question of priority that it would have if filed on the date on which the foreign application was filed.

The Commission, page 36, recommended proposed legislation, which is, in substance, the amendment to R.S. 4887 which was passed and is, with no change in substance, what we have today in section 119. The proposed bill in the Commission Report was entitled 'A Bill to give effect to treaty stipulations relating to letters patent for inventions.' The Act passed was entitled 'An Act To effectuate the provisions of the additional act of the international convention for the protection of industrial property.' Throughout, the same phrase has always appeared, 'shall have the same force and effect,' until it was simplified in the 1952 codification to 'shall have the same effect.' This change was mere modernization in legislative drafting. The Revisers Note to the section says: 'The first paragraph is the same as the present law with changes in language.' The Federico Commentary on the 1952 Act, 35 U.S.C.A., says (p. 29):

> This so-called right of priority was provided for in the second paragraph of R.S. 4887 which is the basis for the first paragraph of section 119 of this title. . . . (he here states the 4 conditions for obtaining the right) . . . The new statute made no changes in these conditions of the corresponding part of the old statute except to revise the language slightly. . . .

We need not guess what Congress has since believed to be the meaning of the disputed words in section 119, for it has spoken clearly. World wars interfere with normal commerce in industrial property. The one-year period of priority being too short for people in 'enemy' countries, we had after World War I a Nolan Act (41 Stat. 1313, Mar. 3, 1921) and after World War II a Boykin Act. Foreign countries had reciprocal acts. One purpose was to extend the period of priority. House Report No. 1498, January 28, 1946, by Mr. Boykin, accompanied H.R. 5223 which became Public Law 690 of the 79th Cong., 2d Sess., Aug. 8, 1946, 60 Stat. 940. Section 1 of the bill, the report says, was to extend 'the so-called period of priority,' which then existed under R.S. 4887. On p. 3 the report says:

> In this connection, it may be observed that the portion of the statute which provides that the filing of a foreign application--shall have the same force and effect as the same application would have if filed in this country on the date on which the application for patent for the same invention, discovery, or design was first filed in such foreign country — is intended to mean 'shall have the same force and effect,' etc., insofar as applicant's right to a patent is concerned. This statutory

> provision has no bearing upon the right of another party to a patent except in the case of an interference where the two parties are claiming the same patentable invention.

U.S.Code Congressional Service 1946, p. 1493.

We emphasize none of those words because we wish to emphasize them all. We cannot readily imagine a clearer, more definitive statement as to the legislature's own view of the words 'same effect,' which now appear in section 119. This statement flatly contradicts the board's views. The board does not mention it. . . .

For the foregoing reasons, we are clearly of the opinion that section 119 is not to be read as anything more than it was originally intended to be by its drafters, the Commission appointed under the 1898 Act of Congress, namely, a revision of our statutes to provide for a right of priority in conformity with the International Convention, for the benefit of United States citizens, by creating the necessary reciprocity with foreign members of the then Paris Union.

The board has mentioned that it was not limited in its terms to that treaty, which is true, so that it also functions relative to other treaties and reciprocal laws. We are unable to deduce from this any intent to affect the date as of which U.S. reference patents are effective. Nor can we do so by reason of another 'deviation' from the Convention the board finds in section 4887 (now 119) as to the protection of third parties.

SECTION 102(e)

[The Court then discusses the rule established in *Alexander Milburn Co. v. Davis-Bournonville Co*., 270 U.S. 390 (1926) and its enactment into 35 USC Section 102(e), concerning prior art which was not publicly known at the time of a patent application—so-called "secret prior art."]

We need not go into the reasoning of the *Milburn* case, which has its weaknesses, because all that matters is the rule of law it established: That a complete description of an invention in a U.S. patent application, filed before the date of invention of another, if it matures into a patent, may be used to show that that other was not the first inventor. This was a patent-defeating, judge-made rule and now is section 102(e). The rule has been expanded somewhat subsequent to 1926 so that the reference patent may be used as of its U.S. filing date as a general prior art reference. . . .

What has always been pointed out in attacks on the *Milburn* rule, or in attempts to limit it, is that it uses, as prior knowledge, information which was secret at the time as of which it is used—the contents of U.S. patent applications which are preserved in secrecy, generally speaking, 35 U.S.C. § 122. This is true, and we think there is some validity to the argument that that which is secret should be in a different category from knowledge which is public. Nevertheless we have the rule. However, we are not disposed to extend that rule, which applies to the date of filing applications in the United States, the actual filing date when the disclosure is on deposit in the U.S. Patent Office and on its way, in due course, to publication in an issued patent.

The board's new view, as expressed in this case . . . has the practical

potential effect of pushing back the date of the unpublished, secret disclosures, which ultimately have effect as prior art references in the form of U.S. patents, by the full one-year priority period of section 119. We think the *Milburn* rule, as codified in section 102(e), goes far enough in that direction. We see no valid reason to go further, certainly no compelling reason.

We have seen that section 119 originated in 1903 and that its purpose was to grant protective priority rights so that the United States might be a participating member in the International Convention by giving reciprocal priority rights to foreign applicants with respect to the obtaining of patents. We have also seen that section 102(e) was the codification of a court-developed patent-defeating rule based on a statutory requirement that an applicant's invention must not have been previously known by others in this country. We see no such relation between these two rules of law as requires them to be read together and it is our view that section 119 should not be so read with 102(e) as to modify the express limitation of the latter to applications 'filed in the United States.' . . .

Section 102(e) was a codification of the *Milburn* doctrine. The *Milburn* case accorded a U.S. patent effect as a reference as of its U.S. filing date and stated that the policy of the statute on domestic inventions 'cannot be applied to foreign affairs.' No foreign date was involved in the case. The codifying statute specifies that the date as of which the patent has effect is the date of filing 'in the United States.'

R.S. 4887, predecessor of section 119, was in effect from 1903 to 1952 when it was incorporated unchanged in the present statutes. An examination of the legislative history of that statute fails to reveal a scintilla of evidence that it was ever intended to give 'status' to an application or to serve as a patent-defeating provision except insofar as the application, or patent issuing thereon, becomes involved in a priority contest. The *Milburn* rule, under which U.S. patents are used as prior art references for all matter disclosed in them as of their U.S. filing dates has been consistently and continuously applied since its inception in 1926, if not earlier under lower court decisions, by the United States Patent Office, the agency charged with the administration of the patent system, in accordance with the view . . . that R.S. 4887, and later section 119, does not make a U.S. patent effective as a reference as of a foreign priority date to which it may be entitled. . . . [S]ection 119 does not affect the express provision of 102(e) as to filing 'in the United States' and the decision of the board that the Swiss filing date of Habicht is the effective date of his U.S. patent as a reference must be reversed.

[The Court remanded the case for the Board to clarify its position on two remaining claims in the application, the validity of which had not been previously decided. The Board rejected them as obvious based on Habicht's foreign filing under 35 U.S.C. §§ 102(g), 119, and 104. The CCPA again reversed (*In re Hilmer*, 424 F.2d 1108 (CCPA 1970), "*Hilmer II*"), holding that the "subject matter" of Habicht's claim was prior art, if at all, as of the application's U.S. filing date, and could not be cited as prior art against Hilmer.]

PATENT COOPERATION TREATY, ARTICLE 64(4)

(a) Any State whose national law provides for prior art effect of its patents as from a date before publication, but does not equate for prior art purposes the priority date claimed under the Paris Convention for the Protection of Industrial Property to the actual filing date in that State, may declare that the filing outside that State of an international application designating that State is not equated to an actual filing in that State for prior art purposes.

(b) Any State making a declaration under subparagraph (a) shall to that extent not be bound by the provisions of Article 11(3).

(c) Any State making a declaration under subparagraph (a) shall, at the same time, state in writing the date from which, and the conditions under which, the prior art effect of any international application designating that State becomes effective in that State. This statement may be modified at any time by notification addressed to the Director General.

NOTES AND QUESTIONS

1. How different is the function of the specification from that of the claims of a patent application for determining novelty and obviousness? Article 54(3) EPC states that the content of prior filed European patent applications which are later published shall be considered as comprised in the state of the art. But Article 56 adds, "If the state of the art also includes documents within the meaning of Article 54, paragraph 3, these documents are not to be considered in deciding whether there has been an inventive step." Prior to 1977, only the claims of a British patent application were used to determine novelty of a later filed application. The European Patent Office (and the British Patent Act of 1977) uses the whole contents of an application for purposes of determining the novelty (but not obviousness) of a later filed application. According to the *Hilmer* rule, contents of a prior filed U.S. application affect determinations both of novelty and of obviousness. Do differences between the first-to-file and the first-to-invent systems account for all the differences in approach and effect?

2. Is the *Hilmer* case about novelty and nonobviousness or about priority? In most of the world, priority means priority of *application* by a *true* inventor or her assigns—not priority of *invention* by a true and *first* inventor. Is the question merely one of how to define the word "first?"

3. The *Hilmer* court states that the *Milburn* rule "has its weaknesses." Is the *Hilmer* court primarily determined to limit the scope of Section 119's treatment of foreign applicants or the scope of Section 102(e)'s secret prior art effect? Does your answer affect whether the United States is in compliance with its treaty obligations? Should the court have reconciled its interpretation of Section 119 in light of the Restatement's formula for treaty interpretation? Under Section 115 of the Restatement, an act of Congress supersedes a provision of an international agreement as law of the United States "if the purpose of the act to supersede the earlier rule or provision is clear or if the act and the earlier rule or provision cannot be fairly reconciled." RESTATEMENT OF THE LAW (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 115 (1987). Is Section 102(e) clearly irreconcilable with Article 4? Does the codification of the *Milburn* Rule in 35 U.S.C. § 102(e) in 1952 supercede the effect of Paris Convention Article 4 in U.S. law?

4. Section 104 of the Patent Act was amended in 1994 to allow parties outside the United States in WTO countries to prove dates of invention in Patent Office interference proceedings and in the courts. Whether these amendments are effective is discussed in William LaMarca, *Reevaluating The Geographical Limitation Of 35 U.S.C. 102(b): Policies Considered*, 22 U. DAYTON L. REV. 25 (1996). Assuming the amendments are effective, do they eliminate from a practical standpoint the *Hilmer* problem for foreign applicants? Why, or why not? *See also* Richard A. Neifeld, *Letter to the Editor*, 80 J. PAT. TM. OFF. SOC'Y 886 (1997) (predicting a fourfold increase in interferences in the USPTO in the near future).

5. Scholarship on the controversy over the *Hilmer* doctrine could fill an entire book. For some interesting illustrative viewpoints, see, e.g., Kate H. Murashige, *The Hilmer Doctrine, Self-Collision, Novelty and the Definition of Prior Art*, 26 J. MARSHALL. L. REV. 549 (1993); C. Douglas Thomas, *Secret Prior Art—Get Your Priorities Straight!*, Harv. J.L. & Tech. 147 (1996), Harold C. Wegner, *TRIPS Boomerang—Obligations For Domestic Reform*, 29 VAND. J. TRANSNAT'L L. 535 (1996), R.B. Brody, *U.S. Treaty Law, The Paris Convention*, 35 USC 119,53 J. PAT. OFF. SOC'Y 194 (1971). More recently, the question of U.S. compliance with the TRIPS Agreement has been questioned as a result, among other things, of the Hilmer doctrine. *See* Lauren A. Degnan, *Does U.S. Patent Law Comply With TRIPS Articles 3 And 27 With Respect To The Treatment Of Inventive Activity?,* 78 J. PAT. OFF. SOC'Y 108 (1996); Todd R. Miller, *Inventions Made in U.S.A.: Foreign 'Equality' Under Applicable International Treaties*, 27 IIC 587 (1996).

3. SUBSTANTIVE PRINCIPLES IN THE PARIS CONVENTION: EXPLOITATION OF THE PATENTED INVENTION AND THE SCOPE OF THE RIGHT TO EXCLUDE

PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY OF 20TH MARCH, 1883

Article 5

> The introduction by the patentee into countries where the patent has been granted, of articles manufactured in any other of the States of the Union shall not entail forfeiture. The patentee, however, shall be subject to the obligation of working his patent conformably to the laws of the country into which he has introduced the patented articles.

After the Paris Union was formed in 1883, much of the subsequent patent deliberations of its members revolved around the important issue of the scope of the patent right vis-a-vis the rights of third parties, touching again and again on the question of whether a patent is primarily a personal property right or an instrument of public policy. A Conference of Revision was held in Rome in 1886 to discuss Article 5, on the question of forfeiture of the patent right. France insisted that Article 5 should be amended to allow forfeiture of a patent for

importing a patented product into a country where there was patent protection. Conversely, Belgium insisted that there be no forfeiture of a patent whatsoever — even where the patent had not been not worked within the country. Attempts to harmonize patent classification were rejected. Article 5 on exploitation of the patent was a prime source of contention for almost a half-century, until the Lisbon Conference of 1958. Whether forfeiture of a patent constitutes expropriation, whether compulsory licensing or working requirements unduly hinder the rights of the patentee remain hotly debated questions even today. The history of Article 5 from its original articulation set out above to its final formulation just below is discussed in the next reading.

PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY, of 20th March, 1883, revised at BRUSSELS on 14th December, 1900, at WASHINGTON on 2nd June, 1911 at THE HAGUE on 6th November, 1925, at LONDON on 2nd June, 1934, and at LISBON on 31st October, 1958

Article 5

A. — (1) The importation by the patentee into the country the patent has been granted of articles manufactured in any of the countries of the Union shall not entail forfeiture of the patent.

(2) Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licences to prevent the abuses which might result from the exclusive rights conferred by the patent, for example, failure to work.

(3) Forfeiture of the patent shall not be prescribed except in cases where the grant of compulsory licences would not have been sufficient to prevent such abuses. No proceeding for the forfeiture or revocation of a patent may be instituted before the expiration of two yeas from the grant of the first compulsory license.

(4) An application for a compulsory licence may not be made on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period last expires; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory licence shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-licence, except with that part of the enterprise or goodwill using such licence.

(5) The foregoing provisions shall be applicable, *mutatis mutandis* to utility models.

B. — The protection of industrial designs shall not, under any circumstance, be liable to any forfeiture either by reason of failure to work or by reason of the importation of articles corresponding to those which are protected.

. . .

D. — No indication or mention of the patent, of the utility modes of the registration of the trademark, or of the deposit of the industrial design shall be

required upon the product as a condition of recognition of the right to protection.

REVISION CONFERENCES

excerpted from ULF ANDERFELT, INTERNATIONAL PATENT-LEGISLATION AND DEVELOPING COUNTRIES 72-92 (Den Haag, 1971)

[T]he following examination of the evolution of the Convention will deal exclusively with the rules concerning the exploitation of patents. Such rules are contained in Article 5 and prescribe the limits of the extent to which national laws may require patentees to exploit their inventions, and the types of sanctions allowed to enforce such requirements. Although certain other rules of the Convention, such as those that define the administrative measures that a country may impose on foreigners and rules concerning the right of third parties, may have a certain economic impact, the measures concerning the exploitation of patented inventions allowed under the Convention remain by far the most important features of the Convention in terms of their economic significance.

The texts of the first two revision conferences are of little interest since neither of them was ratified. The principal question at the first of these two, held in Rome in 1886, was the continuation of the efforts against compulsory working requirements. When discussion on this point was resumed at the second conference, held in Madrid in 1890, the suggestion was made that compulsory licensing be substituted for compulsory working as the most equitable method of conciliating the interests of individuals and those of society.

I. THE REVISION CONFERENCE OF BRUSSELS, 1897 - 1900

At this conference the Belgian proposal, made in 1880, for a total ban on revocation for non-working when a patent was being worked in one member country, was repeated, but it was again rejected, this time by a majority of the delegates. The Bureau, taking note of the difficulties created by the unanimity rule, which had led to the non-ratification of two previous revision texts, for the first time (as far as patents are concerned) introduced a proposal for the creation of a restricted union to which countries could adhere, which agreed to adopt a rule by which the sanction of revocation for non-working would be replaced by compulsory licensing. The general opinion, however, was not in favor of restricted unions in patent matters. As no agreement could be reached on any of the major proposals when the conference met in 1897, and in order not to have to close the conference without any tangible results, it was adjourned for the time being. Three years later, Belgium, having in the meantime conferred with the governments of some countries, which had opposed some amendments in 1897, recalled the conference and agreements were reached on several points.

The Bureau, having dropped its proposal for a restricted union, now suggested a clause prohibiting the revocation of a patent for non-working before the lapse of three years from the date of application, with the further qualification that revocation would only be allowed in cases in which the patentee could not justify his inaction. Unsuccessful efforts to license was suggested as justification. Though agreement on this last point could not be reached, the

clause as such was accepted, leaving it to each country to decide what constituted justification.

The insertion of this clause may raise two questions: could other sanctions be used before the end of the three-year period, and could revocation be used as a sanction at any time in cases in which the patentee misused his monopoly power other than by non-working? Akerman has answered the first question in the negative, which seems reasonable in view of the fact that forfeiture was the only sanction mentioned in the debates. The fact that causes for sanctions other than non-working were not mentioned may for the same reason be taken to indicate that revocation for whatever reason was prohibited for three years; such an extensive interpretation does not seem reasonable. The question is of some interest since a later revision conference (The Hague, 1925) introduced the concept of "abuse" of the patentee's monopoly power. Akerman, devoting much effort to show that the evolution of the Convention, and in particular Article 5, marks an increased awareness of the importance of society's interests, sees in the introduction of the wider concept of the abuse of monopoly power the major indication and support for his thesis. While a closer examination of this point will be made later, it is here merely suggested that the more plausible interpretation of the new clause must be that no limitation was imposed on sanctions that might apply, according to national laws, for other causes.

Despite the fact that the principle of unanimity in theory gives an equally important voice to each member, it is obvious that economically more powerful States can wield considerable influence at times. This was shown in a particular form at the Brussels conference. Both Germany and Austria, neither of which was yet a member, had made it clearly known that, while they were prepared to join the Union, their adherence depended on the adoption of certain amendments, of which the limitation of the sanction of revocation was the most important. From the deliberations it is evident that the decisions taken were strongly influenced by the desirability to accommodate these countries.

2. THE REVISION CONFERENCE OF WASHINGTON OF 1911

In view of the strong opposition of many countries to the abolition of revocation, the Bureau now proposed the following addition to Article 5: while the sanction of revocation should in principle be replaced by compulsory licensing, each country should retain the right to demand that consumers be adequately supplied, and that licenses be given on reasonable terms if asked for, at the risk of revocation; the use of this power should, however, be limited to cases in which parties immediately concerned, *i.e.*, consumers and producers, had complained of not being able to either buy goods or obtain licenses; and the three-year rule limiting the use of revocation should be retained in any case. The Bureau proposal also contained the suggestion that countries, not willing to accept the new proposal, should be able to continue applying the existing provisions.

This latter suggestion would have introduced what is known as the "reservation system," which had been adopted for instance by the Berne Union. As had been the case at Brussels when the suggestion of a restricted union was

made, now also a strong opposition against splitting the unity of the rules of the Convention manifested itself.

In their counter-proposals, several countries rejected the Bureau's proposal, which largely substituted compulsory licensing for compulsory working, on the grounds that their national laws were not in agreement with such a provision. The British proposal is particularly interesting in view of the fact that Britain had been a co-sponsor in 1880 of the Belgian proposal to abolish the sanction of revocation for nonworking completely. The British change of mind on this point was due to the introduction of compulsory working in a Patent Act amendment in 1907.

The Bureau, in proposing the new Article 5, evidently had in mind the new English patent law. Referring to new circumstances which had appeared in some countries since the Brussels Conference, the Bureau said that, in order to avoid a regression from the progress already achieved, new provisions tending to conciliate the "legitimate rights" of inventors and the "requirements of public interest" might be desirable. Though reference to "public interest" has always been invoked, both to defend and reject proposed changes, the Bureau, for the abovementioned reason, seems to have gone further in stressing the public interest at Washington than at any other conference, even with due consideration for the second point mentioned below. The new proposal concerning Article 5 was based on the following ideas according to the Bureau: (1) is necessary to give the industry of every country the possibility of utilizing any invention on a footing of equality with all other countries protecting that invention; (2) any intentional bias must be prevented from operating either in favor of the inventor against the public interest or against the inventor in favor of any particular interest; and (3) certain countries apparently wish to retain the faculty to take the necessary measures assuring the introduction either of new industries likely to benefit their economies or of products demanded by their consumers. It must of course be recognized that, though in general the interests of society and of individual patentees, as far as working provisions are concerned, are supposed to be in opposition, this may not always be so. Besides the opinion that there are no differences between the two groups of interests, this seems to be the case particularly of large industrial countries with a large or major portion of their patent grants given to its own nationals, and whose nationals hold significant numbers of patents in other countries.

A German proposal to the Conference suggested the substitution of compulsory licensing for revocation as a sanction for non-working, to be used after the three-year period. A number of countries opposed the proposal — Austria, France, Great Britain, the Netherlands and Spain. The position of France is particularly interesting. Far from basing itself on the principles of "inherent rights of inventors," the French rejection of this proposal stated, in fact, that the working obligation had its rationale in the economic necessity of feeding the national industry of the patent-granting country with the discoveries and inventions there patented. Similar positions were taken by other countries in later conferences. This debate clearly indicates the existence of conflicting interests between inventors and society. The fact that only certain countries, and sometimes not the same ones, took such positions from conference to conference, further indicates the existence of differences of interest among countries in the

matter of the international protection of patents.

After the German proposal was rejected, the general opinion was in favor of retaining the *status quo*. Thus, at the Washington Conference no change was made that affected the manner in which a patentee could be obliged to exploit his patent by national law. On the whole, only minor changes concerning patents were agreed upon.

3. THE REVISION CONFERENCE OF THE HAGUE 1925

At this conference the contents of Article 5 were changed in the following respects: in paragraph 2 the essential change was the substitution of the concept of "abuses which might result from the exclusive rights conferred by the patent" for that of "non-working;" a paragraph 3 was inserted, in which the idea of compulsory licenses was introduced for the first time. The paragraph stated that measures to prevent abuses "shall not entail forfeiture unless the grant of compulsory licenses is insufficient to prevent such abuses;" and finally a fourth paragraph was created essentially containing the second part of paragraph 2 of the Washington text, but with the following changes: the three-year period would start from the date of the patent grant rather than from the filing date of the patent application, and the patentee could exonerate himself by proving "the existence of legitimate excuses" rather than "by justifying his inaction."

This text gave rise to several, sometimes conflicting, interpretations. In order to suggest the most valid interpretation, the various propositions and opinions expressed at the conference will be examined as well as comments made on them afterwards.

The proposal of the Bureau suggested the deletion of compulsory working provisions, replacing them with provisions for compulsory licenses after the three-year period, in countries that wanted to prevent an invention from not being worked locally. The Bureau motivated this proposal with the fact that membership was now considerable and that the maintenance of compulsory working clauses in all but one of the Member States (the exception being the United States) was not rational, since if the patentee does not work his invention in a country it is generally because he can work it more profitably in another country, in which case the consumer will pay less.

Later the Bureau added the following particular argument (which has been echoed by several authors commenting on this conference):

> The obligation for the foreign patentee to manufacture in the country may lead to the establishment of a foreign industry towards which the local manufacturers would not be favorable.

Although this latter argument must be seen in the context of the climate of strong economic nationalism that reigned after the First World War, it is of interest today in the case of developing countries whose very objective it is to attract foreign investment in industrial manufacturing.

Several countries objected to the suggestion to abolish any working requirements completely, which was raised this time by the United States. Spain, opposing the proposal, observed that if the abolishment of any working

requirement may be favorable to the large, industrialized countries, assuring them complete control of export markets, such a measure would prejudice the interests of less industrialized countries by transforming the patent monopoly into a trading monopoly inimical to the development of local industry.

Three countries (Japan, Poland and Yugoslavia) were also opposed to the abolition of the sanction of revocation for non-working and proposed the maintenance of the *status quo*. All three countries gave essentially the same arguments. The Polish declaration may be taken as an example. The refusal to abolish revocation was based on the fact that the Polish industry was far from being as developed as those of the great Western Powers and that the government had the duty to protect and assure the development of local industry. Therefore, it could not agree to let Polish industry be stifled by the importation of patent protected products. The most significant argument, considering that these countries were then comparable to the developing countries of today, and one that was made by all three, purported to indicate that compulsory licenses were not always a reliable remedy because of the difficulties of finding local licensees.

As it appeared impossible to reach agreement on the abolishment of revocation, the President of the second subcommittee on patents wondered if anyhow, it would not be possible to work out a compromise text, "taking into account the understandable apprehension, that the suggestion has created within certain delegations."

A compromise proposal, introduced by Great Britain and the United States, was adopted and became paragraphs two, three and four of Article 5. The sanction of revocation was maintained but was not to be used unless "the grant of compulsory licenses is insufficient to prevent such abuses" [Article 5 (3)]. Diverging opinions have been expressed on the problem of whether an actual grant of a compulsory license had to precede revocation, or whether direct revocation could take place (still only after three years), if a compulsory license was considered insufficient.

The drafting committee, in its comments on the new text of Article 5, observed that it laid down the principle of abolishing revocation and provided the means of compulsory licenses to oblige the patentee to work his patent or to sanction his inaction. It added, however, that the article even permitted the application of revocation if the compulsory license is not sufficient "in fact." The expression "in fact" would seem to indicate that actual proof of insufficiency was necessary before a patent could be revoked. Ladas apparently agrees with this point of view when he says that “only in case such a license does not prevent the abuse of the exclusive right granted to the patentee, his patent may be forfeited.” The corollary to such an interpretation would imply that a country lacking a compulsory license system - it may have previously relied exclusively on revocation to sanction non-working - would suddenly be deprived of any sanction at all. This would neither be a logical result of the gradual evolution of the Convention nor take account of the adamant opposition of certain countries to the abolishment of revocation.

There is one interpretation that can be effectively defended, and which would agree with all the authors, who have maintained that the introduction of compulsory licenses in the Convention was merely a recognition of the *principle* of substituting compulsory licenses for revocation. It has been proposed by

Ackerman. He observes that the Bureau's interpretation of the new rules permitted member countries to take any measures deemed necessary to assure local exploitation. Referring to the categoric refusal of some countries to abolish revocation, he therefore concludes that each country is free to decide, given their economic and social conditions, whether the granting of compulsory licenses will be insufficient, and whether therefore only a revocation will effectively eliminate abuses of the patent monopoly.

The important innovation at the Hague, in the text of Article 5, is the substitution of the concept of "the abuses which might result from the exclusive rights conferred by the patent" for that of "non-working." The concept of "abuse of monopoly power" was introduced by the Anglo-American compromise proposal and was clearly inspired by the British Patent Act. The phrase "for example, failure to work" was inserted at the request of one delegation, in order to make it clear that non-working might constitute such an abuse. As far as non-exploitation is concerned, the new text has been interpreted to mean that such inaction in itself is not liable to sanctions, and sanctions are allowed only if it is considered an abuse of the patentee's monopoly power.

Since until 1925 the Convention had only regulated the obligation to work and its sanctions, Akerman believes that the introduction of the wider concept of "abuse of monopoly power" into the Convention was a step increasing the powers of society in its efforts to prevent harmful practices due to patent monopolies and contrary to the public interest, by giving it wider powers of control than it had had before.

Although prior to 1925, the Convention text had only dealt with non-working, this did not mean that other actions by a patentee deemed harmful by society could not have been subject to sanctions by virtue of a national law. The only plausible explanation for the fact that the Convention text treated only sanctions against non-working is that it did not regulate other abuses, leaving the Union countries free to legislate on the matter. From what has been suggested above, with reference to the Brussels Conference, on the non-applicability of the three-year grace period to sanctions for causes other than non-working, and, moreover, taking into consideration the British proposal during the Washington Conference to expressly make non-working the only case in which the period was applicable, the obvious conclusion seems to be that the introduction of the concept of "abuse of monopoly power" was, in fact, a further curtailment of society's right to control the use made of the monopoly power that a patent gives its holder.

The third and final modification of Article 5 changed the starting date of the three-year period from that of the patent application to that of the patent grant. It appears that there was little opposition to this change. It meant a substantially greater protection for the patentee against sanctions especially in countries that used the examination system.

Of the three changes introduced in Article 5 at the Hague, the introduction of the concept of compulsory licenses would certainly have the most long term influence, even though initially it may have had less practical value. The appearance of the concept of "abuse of monopoly power," which now included among other causes the only previously, regulated cause for sanction--non-working--must be considered a gain for the patentee, as must also the third

change prolonging the period during which sanctions could not be taken. Thus there seems little justification for the opinion that the new Article 5 as revised at the Hague, took account of any increased awareness of the interests of society (as opposed to those of the patentee).

4. THE REVISION CONFERENCE OF LONDON 1934

At this conference only paragraph 4 was amended, but the change was important. Whereas the text of paragraph 4 in its earlier version contained the expression "the patent may not be subjected to such measures before the expiration of three years," the new text provided that "an application for a compulsory license may not be made before the expiration of three years." A second sentence was added, reading: "No proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license."

The Bureau suggested one change of Article 5. The proposed amendment, aimed at the abolition of the sanction of revocation for non-working, would mean a revision of paragraph 3. The draft amendment for a new paragraph 3 read: "These measures may foresee *the compulsory license as a sanction for non-working but not the revocation of the patent grant.*" The Bureau after affirming that according to the Hague text, the countries that had opposed the abolition of revocation, fearing that the importation of patented products would retard their industrial development, were still free to maintain that compulsory licenses were not sufficient to avert the disadvantages of non-working, nevertheless maintained that it was difficult to admit that an abuse of the monopoly power exists, when the patentee is prepared "to satisfy all needs of the local market." Although one may take issue with the assertion that the patentee is prepared to satisfy all needs of the local market"--in a monopoly market the meaning of satisfaction of consumers is by definition far removed from the general significance of that term--as well as his professed readiness to license, there is another fundamental consideration that may invalidate the statement. As several countries observed at the Hague and would do again at this conference, the sanction of compulsory licenses may not be effective because of the difficulty to find licensees. It is possible that less industrialized countries are primarily concerned less with the abuse on the part of the foreign patentee than with the ability of the patent system to meet the particular requirements of industrialization of developing countries. On the other hand, to the extent that certain sanctions for non-working are in reality ineffective, this might encourage abuse.

Three counter-proposals submitted by Member States are of particular interest. A Mexican suggestion for a new paragraph 3 would keep compulsory licensing but not the sanction of revocation. Instead a country would be able to sanction non-working with a "reasonable reduction" of the duration of the patent. The Polish delegation proposed an amendment of the existing paragraph 3 containing the rule, that non-working should not be considered an abuse in the case where the demand of the local market did not justify local production. In motivating its standpoint, the Polish delegation referred to its declaration at the Hague, and stated that the Polish Government must support its industry, and that

it could not accept importation of patented products in the cases in which it was proved that the costs of local production would be covered by national demand. It concluded that Poland, *in order to prevent abuses detrimental to its local industry, could not accept the abolition of revocation*. The significance of this approach is that it tries to solve the problem of the case in which the foreign patentee and the national authorities do not evaluate the possibilities for local production in the same way.

The Czechoslovakian delegation, in a general commentary on the Bureau proposals, declared, that the changes suggested were evidently based on" the desire to satisfy the multiple claims of modern international commerce," and that it was certain, "that the proposals of the Bureau were likely to considerably improve the position of patentee internationally." Nevertheless, it continued:

> One must not lose sight of the fact that this improvement entails a weakening of the economic position of nationals to the advantage of foreigners. Given the proportion that exists between the manufacturing and trade of small countries such as Czechoslovakia, on the one hand, and foreign competition, on the other hand, it is to be feared that the advantages will far from compensate for the disadvantages to the national economy, if the Bureau programme was adopted.

The Czech delegation then declared that already the changes brought about at the Hague had come to lie heavily on the Czechoslovakian manufacturers and merchants. Therefore their government had to examine the Bureau proposal with the utmost care and oppose any reform, which might bring further disadvantages to its nationals. For these economic reasons the Czechoslovakian delegation proposed some amendments to the Bureau proposal. The specific proposal concerning Article 5 submitted by Czechoslovakia did not go beyond amending the existing paragraph 3 in the manner suggested by the Polish delegation.

A compromise proposal was worked out that left paragraph 3 unchanged and introduced a revision of paragraph 4, according to which the sanction of revocation would be kept, but under the condition that it could be invoked only two years after a compulsory license had been granted. In committee this compromise was accepted by the majority, and during the session of the Conference sitting as a committee of the whole only Japan did not vote in favor of it. The new paragraph 4 of Article 5 was finally adopted in plenary session without discussion.

Even though the only textual change in Article 5 at the London Conference appeared in its fourth paragraph, it also had repercussions on the preceding paragraph. Whereas the third paragraph in its Hague version only constituted an affirmation of a theoretical principle, described as a "moral commitment," that revocation should not be resorted to unless a compulsory license was insufficient, the London version of paragraph 3, in virtue of the second sentence of paragraph 4, constituted a “unionist rule,” *i.e.*, compulsory for all its members.

The greater awareness of the interests of society (in opposition to those

of patentees) which, according to Akerman, was manifest at the Hague Conference, would logically also have to have been present at the London Conference. Just as no indication of such an influence could be found in the results of the first of these conferences, the same seems to be true for the second, unless one does not mean, that since the protection of patentees was not reinforced even further, the interests of society prevailed.

5. THE REVISION CONFERENCE OF LISBON 1958

The revision of Article 5 at Lisbon left only its first paragraph unchanged. Paragraph 2, which recognized the right of Member States to take the necessary legislative measures to prevent abuses, now stated that this right was limited to taking measures "providing for the grant of compulsory licenses." In the first part of paragraph 3, the words "is insufficient", indicating the cases in which revocation was allowed, were replaced by "would not have been sufficient." The former second sentence of the fourth paragraph was inserted as a new, second part of paragraph 3. In the new paragraph 4, the introductory words "In any case" were deleted. Furthermore, the application of "grace" periods, during which no compulsory licenses could be granted, was expressly limited to cases of non-working or insufficient working. A certain adjustment concerning the length of such periods was made. Finally a new phrase was added stating that compulsory licenses should be nonexclusive and non-transferable.

A Turkish proposal to the Conference may be significant, for it shows an increased awareness of the particular position of less industrialized countries. It is also important because it contains the first suggestion to reduce the period during which the patentee is protected against sanctions for non-working. Observing that during every revision conference, including Lisbon, the period of time mentioned in Article 5 (A) had been extended, and referring to what Poland and other countries had said on this question at London, the Turkish proposal said, in part, that the present proposal, in creating an effective monopoly, would fortify the position of the very advanced industrialized countries, which was the reason why countries with less satisfactory economic conditions would maintain their refusal to accept the proposed text. The Turkish proposal continues by arguing for a reduction of this period. Considering the present rhythm of growth of new technology if would be advisable to decide on a very short period for many inventions or else the advantages of the compulsory license will be lost.

It further pointed out that although it is possible to limit the initial freedom of importation by means of restrictions, this cannot possibly help these countries during the specified period of time. The Turkish delegation therefore concludes that the proposed text would create conditions tending to widen the gap between the more and the less industrialized countries, and that unless the period during which sanctions cannot be applied, according to the existing rule, was reduced, Turkey would have to take internal measures to guarantee, such a reduction.

As at all previous revision conferences the proposal to abolish revocation as a sanction for non-working, raised by the Bureau, was opposed by several countries. Among these were Brazil, Iraq and Yugoslavia. According to their experience, the threat of compulsory licenses--especially in the case of

developing countries--was insufficient as a remedy against non-working. The patentee often could not find a local manufacturer able to exploit the patent.

It is interesting to note that Austria and Italy also opposed the move to abolish revocation. The Austrian delegation declared that it could not support the proposal since "such a measure would risk to delay the working of patents in small countries," while the Italian delegation was of the opinion that one could not entirely abandon the system of revocation "without prejudicing the industrial development of the country."

In these two cases the stage of economic development was not mentioned. Instead a difference between larger and smaller countries was suggested; this idea stems from the fact that the percentage of nationals holding patents is generally lower in smaller countries.

When paragraph 4 was discussed, the question of whether or not the patentee should benefit from the "grace" period in all cases of abuse, or merely in the case of non-working and insufficient working, was definitely settled. According to the London text the benefit of this delay in pronouncing sanctions was applicable to all cases of abuse. At Lisbon, however, an almost unanimous opinion held that the patentee should benefit from this delay only in cases of non-working and insufficient working.

The drafting committee, set forth the motivations for proposing a text which with only one change, became the new paragraphs 2, 3 and 4 of Article 5A.

In paragraph 2 the expression "each contracting country shall have the right to take the necessary legislative measures" was replaced by "each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses," in order to make it clear that the primary sanction should be compulsory licenses.

Paragraph 3 was to contain the existing text of paragraph 3 of the London text (saying that a patent cannot be revoked unless the grant of a compulsory license is insufficient), plus the second sentence of paragraph 4 of the London text (revocation can only take place two years after the first compulsory license). In its motivation for the proposed paragraph 3 the Report of the drafting committee said in part, that, in the unanimous opinion of the Committee, revocation could not constitute a primary sanction against non-working (defaut d'exploitation) [sic] but could only be applied once the granting of a compulsory license had proved itself ineffective. Though the drafting committee speaks of "non-working" there is no doubt that what is meant is abuse in general. It might seem that the unanimous opinion of the drafting committee, and the insertion of the second sentence of paragraph 4 of the London text in the new paragraph 3, would definitely settle the matter of the interpretation of that latter paragraph. But first of all the drafting committee consisted of only six countries, five of which had voted for the abolition of revocation in the case of non-working and all of which were highly industrialized countries. More important, however, is the fact that the one change which the text, submitted by the drafting committee, underwent before being adopted by the committee of the whole was that the words "would be insufficient" (ne suffirait pas) appearing in the sentence "Forfeiture of the patent shall not be prescribed except in cases in which the grant of compulsory licenses would be insufficient" were replaced by

"would not have been sufficient" (n'aurait pas suffi). This change in wording would seem to leave open the possibility of interpreting paragraph 3 to the effect that revocation can also be resorted to in cases in which a compulsory license is supposed to be insufficient *if it were tried.*

As for paragraph 4, finally, the report of the drafting committee said that, despite the opinion expressed by certain delegations that the "grace" period should be provided for all cases of abuse, the committee, with the support of all members, limited the application of the period before which no compulsory license can be granted to the cases of non-working and insufficient working. Finally, the drafting committee suggested that this period should be either three years from the grant of the patent (the formula of the London text) or four years from the date of the patent application, as a compromise between *status quo* and the Bureau proposal. With the one change in paragraph 3, mentioned above, the text submitted by the drafting committee was adopted by the Committee of the whole and later by the Conference without discussion.

How is one to interpret Article 5A as it emerged from the Lisbon revision Conference? Paragraph 2 raises no problem. From the text itself it is clear that the sanction of compulsory license has been made the primary sanction. This is equally clear from the proposals submitted to the Conference and opinions expressed during it. Paragraph 3, however, as shown above, raises the question of whether and to what extent the principle of the previous paragraph is attenuated. The drafting committee evidently intended to limit the possibility of revoking patents to cases in which a compulsory license had, in fact, proved itself insufficient. But, for the reasons explained previously, the final wording of this paragraph appears to lead to the possible interpretation that, in fact, it constitutes a concession to the interests of those countries, that maintained steadfastly during the Conference that the threat of compulsory licenses was often insufficient to avoid abuses or to remedy them. As paragraph 4 expressly limits itself to cases of non-working and insufficient working, this interpretation of paragraph 3 would mean that a country, upon judging that a compulsory license would not be sufficient to prevent or rectify a certain abuse of the monopoly power of the patentee, could directly declare a patent forfeited in all cases save those regulated specifically by paragraph 4. No author commenting on the Lisbon text has, however, mentioned such an interpretation.

As for paragraph 4 two changes are evident. The first is that the only abuses now benefitting from a "grace" period before compulsory licenses may be imposed are non-working or insufficient working, whereas earlier all abuses, and, according to the interpretation of some countries, even grounds other than abuses by the patentee, such as cases involving particular public interests, were subject to the provisions of paragraph 4. Thus, there is one tangible change in favor of the interests of society. The second change amounted to a possible prolongation of the grace period. Though its effect was only to benefit patentees in countries that had pre-examination systems, it confirms the contention that the period of effective protection for the patentee might be not only the specified period but also the time between the application for and the granting of a patent.

NOTES AND QUESTIONS

1. The United States has never had a working requirement in connection with its patent law. Germany had a working requirement until 1911 but did not use it other than for the purpose of making reciprocal agreements with other nations. A British authority has observed that "the U.S. has always, by geography and economic position, been able to remain aloof from this sort of requirement." WILLIAM CORNISH, INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADE MARKS AND ALLIED RIGHTS 72 n.51 (2d ed. 1989). Is there anything more than geography and economy to the American position? With regard to the British addition of compulsory licensing in Section 15 of the 1905 Patents Act, Cornish continues:

> As in seventeenth century England, any country which offers patents to foreigners will want the invention to be exploited to the advantage of its own economy. It may indeed take measures to make the patent more than a cover protecting the import of foreign-made goods. If it has a domestic industry that competes with the foreign patentee there may be a particular cause for jealousy. This certainly was the motiv[ating] force behind the introduction into the British system of provisions allowing the grant of compulsory licences on the ground that the invention was not being worked domestically: the success of the German and Swiss chemical industries in the late nineteenth century was built to a substantial degree on the holding of key patents. The French originally went even further, making revocation of the patent the penalty for importing patented articles from abroad; lifting this draconian sanction was made a precondition of membership in the Paris Convention. Article 5A(1). The majority of patenting countries now have some form of compulsory working requirement, which the Paris Convention allows to be sanctioned by compulsory licensing once three years have elapsed from grant; and by revocation if compulsory licensing fails after two years to produce the required result. Provisions of this kind in national law are not only offensive to notions of international comity supposedly underlying the Convention; they are also economically unsound in any case where efficiencies of scale demand production in one place for international markets" *ibid.*

2. In the face of threats from the United States to follow the British example of 1905, in 1909 Germany signed a reciprocal treaty with the United States exempting U.S. patent owners from the German patent law's working requirements. 36 Stat.L. 2178. The German working requirement (Section 11) was itself repealed in 1911, and an amendment substituting compulsory licensing was added. By 1914, Germany supplied 90 percent of U.S. dyestuffs and the U.S. industry consisted largely of small assembly plants operating on German intermediates. The treaty has been called "one-sided" since the U.S. never had such requirements in its patent law. EMERSON STRINGHAM, PATENTS AND GEBRAUCHMUSTER IN INTERNATIONAL LAW 110-11 (Madison 1934).

3. The successive Conferences of Revision mentioned by Anderfelt were held pursuant to Article 14 of the Paris Convention, which states that:

> The present convention shall be submitted to periodical revisions with a view to the introduction of amendments calculated to improve the system of the Union. . . . For this purpose, conferences shall be had successively in one of the contracting countries between the delegates of the said countries.

A consensus rule that requires unanimity of the parties for any amendments to the Convention was present from the very beginnings of the Paris Union. A modification of the unanimity requirement was proposed by Mexico at the London Conference in 1934, but it did not succeed. The consensus rule, which still exists in the Paris Assembly today, has been pivotal in shaping the character and tone of the International Bureau's efforts to introduce improvements into the Paris Convention throughout the various revisions and the nature of the changes which have been made in the treaty text. At the same time, as noted by Anderfelt, the economically more powerful States can wield considerable influence during deliberations. How do powerful states wield their influence in international fora, consistent with the principles of equality which underpin the international legal system?

4. The International Bureau's discussion of the Hague Revision of 1925 notes the argument that "[t]he obligation for the foreign patentee to manufacture in the country may lead to the establishment of a foreign industry towards which the local manufacturers would not be favorable." Does the overtly protectionist argument against working requirements for foreign patentees in favor of local manufacturers comport with the realities of foreign investment practices? Stringham observed that prior to World War I, "as a general rule Germans did not establish enterprises in the United States due to the absence of measures about compulsory licensing." STRINGHAM, *supra*, at 110-111, esp. 176ff. Compare the discussion of compulsory licensing in studies such as Robert M. Sherwood, *The Trips Agreement: Implications For Developing Countries*, 37 IDEA 491, 496 (1997), with reference to "non-robust systems", "trade-enhancing systems" such as TRIPS, and "investment-stimulating systems," described in Edwin Mansfield, *Intellectual Property, Technology, and Economic Growth*, 64 ECONOMIC IMPACT 12 (1988) (measuring private rates of investment) and Joseph Straus, *Implications of the TRIPS Agreement in the Field of Patent Law*, in FROM GATT TO TRIPS: THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 160, 202-208 (1993). Are there valid justifications for the views of opponents of foreign investment in developing countries?

5. At the Hague Conference of 1925, the United States proposed to add a reciprocity system for non-compliance by other states. "Among the general principles, the American delegates proposed an amendment which would have permitted reprisals as between member countries, the objective of the American delegates being to force concessions in the matter of compulsory working and annual taxes." The proposal was withdrawn as being "contrary to the principles of the union." STRINGHAM, *supra*, at 85.

6. Another provision added in London in 1934 was right of inventor to be named (Article 4*ter*), proposed by Italy and Holland. The right of the inventor to see his name figure in the patent, even when taken by a third party, was adopted, but another proposal regarding remuneration due to an

employee or a salaried worker for his invention, which had first been urged by the International Bureau of Labor in 1929, was rejected. Although such rights are powerful, for example, in modern German patent law, in the United States, employee inventors generally have no rights in their inventions if they reasonably relate to the activities of the employer. Is the right of an inventor to be named in the patent a "moral right"? Should firms be required to compensate their employees for assigning their inventions?

7. The question of intervening rights was also an important one in the period in question. As originally stated in 1883, Article 4 provided that: "Any one who shall have regularly deposited an application for a patent of invention . . . in one of the contracting States, shall enjoy for the purpose of making the deposit in the other States, and *under reserve of the rights of third parties* ["*sous reserve des droits de tiers"*], a right of priority during the periods hereinafter determined. A Dutch delegate thought the better expression would have been *"except for rights which had already been legitimately acquired by third parties"* [*"sauf les droits qui seraient deja acquis légitimement par les tiers.*"] *See* STEPHEN P. LADAS, 1 PATENTS, TRADEMARKS AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION 499 (1975). The language was not fixed until the London Conference, where the reservation of right of personal possession of an invention [Vorbenutzungsrecht] after the priority date was suppressed by the addition of Article 4(B) of the Convention. Thenceforward, no prior user rights could arise during the period of priority, while the rights acquired by third parties before the first application, serving as the basis of the right of priority, continued to be regulated according to the internal legislation of each country.

8. Is Anderfelt persuasive about the need for states to have some semblance of the power of revocation of a patent to make the sanction of a compulsory license effective? Is the specter of patent owners in large economically powerful countries abusing the patent monopoly to create a "trading monopoly" with all manufacturing in the home market a real one? We will pursue the topic further in the discussion of parallel imports and exhaustion of right in Chapter Nine.

9. The United States was apparently very pleased with the outcome of the London Conference of 1934:

> Commissioner Coe stated categorically in 1935 that "while the international convention for the protection of industrial property was revised in a number of points, those revisions invariably approached the American law; and every other country in the world belonging to this convention, or practically every other one, yielded its own domestic law in favor of what is apparently regarded as the superior patent laws of the United States.

Hearings before the Committee on Patents on H.R.4523 Pt.I, 74th Cong. 1st. Sess. 1067, 1068 (1935). The 1990s have sometimes been called the Golden Age of the patent system by American judges and scholars. To what extent can the trend in international patent negotiations over the past century be seen to have been one favoring stronger and stronger patent protection?

4. HARMONIZATION OF SUBSTANTIVE PATENT LAW

The following readings cover the first real contemporary attempts at international harmonization of substantive patent law beginning in the mid-1980s with negotiations (1) in the WIPO on a "Treaty Supplementing the Paris Convention as Far as Patents are Concerned" and (2) in the GATT on minimum standards of substantive patent law, which were ultimately incorporated into the TRIPS Agreement. Following the failure to conclude a treaty on substantive patent harmonization within WIPO in June 1991, discussed in the readings, the focus of attention shifted to the WTO. Negotiations in WIPO continued on the much more modest tack of harmonization of procedure. The TRIPS Agreement came into effect at the beginning of 1995, giving the industrialized countries much of what they had sought from developing nations. Harmonization of patent application procedure culminated in the signing of the WIPO Patent Law Treaty [PLT] in June, 2000.

a. The Failed Substantive Patent Law Treaty

Lee J. Schroeder, THE HARMONIZATION OF PATENT LAWS
C567 ALI-ABA 473, 473-78 (1990)

INTRODUCTION

Several efforts to harmonize the patent laws of the various countries of the world, including the United States, are presently underway. The most comprehensive effort is taking place within [WIPO] . . . The focus of that effort is to develop a treaty which will harmonize the patent laws of the countries or groups of countries adhering to that treaty.

A second and related effort is the on-going attempt to internationally address the trade-related aspects of intellectual property and raise the levels of intellectual property protection including patent protection. This effort is taking place within the . . . Uruguay round of trade talks under the [GATT]. . . The two activities are interrelated in that some elements of patent law under discussion in the WIPO exercise are also under discussion in the GATT exercise.

THE WIPO EFFORT

The effort to develop a treaty to harmonize the patent laws of different countries began in 1984 with the convening of several meetings by WIPO to study the availability of a grace period for overcoming the public disclosure of an invention before the filing a patent application. If a publication disclosing an invention occurs within a grace period prior to the filing of a patent application, the applicant may still be awarded a patent for that invention. The matter of a grace period offering applicants up to 12 months before the filing of a patent application during which the applicant can overcome his own disclosure of the invention or the disclosure of a third party is well-known in the United States. But such a grace period is not a part of the patent laws of most other countries of the world. The U.S. participants at these first meetings sought to have the concept of a grace period accepted by the many countries that do not have a

grace period or have a very limited grace period.

The grace period meetings were quite contentious and agreement was only obtained to further study the matter. The grace period topic was next considered along with two other topics in a 1985 WIPO meeting of a committee of experts to harmonize provisions in laws for the protection of inventions. The two additional topics were the requirements to be met in a patent application to obtain a filing date and the requirements for naming an inventor. Over the next five years, some eight additional meetings of the WIPO committee of experts were held and further new topics were introduced and discussed, so that by the time of a meeting this past June, the draft treaty which has evolved consists of some 37 articles and eight rules. . .

. . . A diplomatic conference is now scheduled for June 3-28, 1991. As the draft treaty has many provisions which have the potential to require changes to U.S. law should the United States adhere to the treaty, I will briefly discuss some of those provisions. . . .

THE MORE CONTROVERSIAL PROVISIONS

Patent Awarded to First to File: Article 13

Probably the most controversial change to the U.S. patent law that would be required by the draft treaty is to award patents to the inventor that first files an application and not the first person that invents, as with our present system. The first-to-file system is the system followed by the entire world other than for the United States and the Philippines which follow the first-to-invent approach. Canada had a first-to-invent system until the beginning of this year and legislation is now being considered by the Philippines to change to a first-to-file system.

Opponents in the U.S. of the first-to-file system argue that the first-to-file system would greatly increase the number of applications filed in the United States and the applications would be of a poor quality. The opponents of the first-to-file system also argue that the first-to-file system would be unconstitutional, lacks fairness in that a second inventor who has invented later in time might get the patent and that the first-to-file system favors the large corporation over the individual inventor or the small business.

On the other hand, those who advocate that our first-to-invent system should be replaced by a first-to-file system note that the first-to-file system brings with it a degree of certainty, and that the first-to-invent system advantage of being able to show that one person is the first to invent is a very costly procedure out of the reach of most but very large corporations. Furthermore, even the very large corporations often do not engage in first inventor or interference contests, but instead negotiate cross-licensing arrangements.

While our present system to show that one is a first inventor is costly in terms of money, those that advocate the first-to-file system point to the unfortunate loss of time that is built into the first-to-invent system, because inventors are not under the time pressure to move more quickly as under a first-to-file system. They argue that the first-to-invent system served the United States well when the United States had an isolated economy or had a wide-based

technological lead, but unfortunately at present the United States has to worry about the technological advances of others, and those others are not moving slowly as they do not have the luxury of time and being able to rely on an earlier date of invention. First-to-invent is wonderful if all you have to worry about is others inventing in the United States, which is now the situation in fewer and fewer technological fields.

Another argument that those that advocate the first-to-file system for the United States is that the majority of filers in the United States are already operating with such a system. This includes the applicants of almost half of the applications that originate from abroad, and most of the applicants filing for U.S. corporations, as they also file the same applications abroad.

Both sides of the debate attempt to refute the arguments offered by the other side. The opponents of the first-to-file system point to the historical record of the United States having a first-to-invent system for over 150 years and the fact that the concept of a first-to-file system for the United States was thoroughly reviewed following the proposal in the 1966 report of the President's Commission to study the U.S. patent system. It is interesting to note that in Congressional hearings on bills before the Congress resulting from the 1966 President's Commission report, a change to first-to-file was opposed by the various patent bar groups and a number of industry groups but was supported by some inventor groups and small business groups.

Grace Period: Article 12

While the issue of first-to-file versus first-to-invent may be the most controversial, or at least the issue that is receiving the most attention, there are other issues that are equally, and quite possibly, more important that are part of the harmonization effort. Of particular interest is the grace period which was mentioned earlier. At present in the United States one has the opportunity to swear behind any publication that takes place in the year immediately before the filing of a patent application. If a researcher publishes his or her work and then six months later decides to file a patent application, his or her own publication would not be a bar to obtaining a patent in the United States.

Furthermore, the publications of others within a year of the filing date of the application also would not be a bar in the United States if the inventor can swear to a date of invention earlier than the date of the publication.

While a grace period is well-known in the United States, it is not found in the patent laws of many other countries. Researchers or inventors in the United States who publish before filing, give up their patent rights in much of the rest of the world as their own publications will be cited against them in their attempt to obtain foreign patents. What the draft treaty now contains is a provision which will provide a grace period for the persons who publish their works prior to filing patent applications.

The grace period provision now under consideration in the draft treaty gives persons who publish their inventions prior to the time a patent application is filed, rights only over the publication by the inventor or by another who obtained information regarding the invention either directly or indirectly from the inventor. It does not given an inventor any protection against the independent

activity and publication by another prior to the filing of the inventor's application. The grace period which is provided in the draft treaty is a grace period on which the prudent inventor should not ordinarily rely. However, the provision will be available to excuse the uninformed individuals that unfortunately publish their inventions prior to the time their patent applications are filed from the adverse effect of their own publications.

Early Publication of a Patent Application: Article 15

A third provision that is often held by many of the other countries to the negotiations to be a necessary element to accompany first-to-file and the grace period is the provision calling for publication of the patent application 18 months after the application is filed. In recent negotiations, the United States has attempted, without much success, to have this provision be optional with any country. In the most recent meeting, the United States proposed that a country could optionally publish by 24 months. This would permit the United States to rely on its patents as a publication for most of the applications. The concept of publication optionally at 24 months was accepted by others at least to the extent that it will be included as an option in the text which will go forward to the diplomatic conference.

Advocates of a mandatory early publication of patent applications for the United States argue that this would give the U.S. public the information in foreign origin applications sooner and such information would be published in English. It is their belief that at present only large corporations with extensive information networks have the resources to obtain and translate all the 18-month publications from around the world. It would also give the U.S. public earlier information about the earlier notice of some U.S.-origin applications. Opponents of a mandatory early publication requirement argue that an inventor should not be faced with a publication of his application if patent protection is not obtainable. If an adverse indication regarding patentability was received early enough in the process, the applicant could withdraw the application before it is published and preserve any trade secrets. However, such an early and definite indication may not always be possible even with the 18-month average pendency of applications in the United States unless the optional 24-month publication regime would be available.

OTHER SIGNIFICANT PROVISIONS

Description Requirements: Article 3

In the Article setting forth the description requirements the United States negotiators successfully sought a provision which will enable the United States to maintain the requirement that the description contain the "best mode" of carrying out the invention. The provision obtained provided that the right to require the "best mode" is optimal with any country as the negotiators were not successful in convincing the rest of the world that the "best mode" requirement should be mandatory.

Claim Requirements: Article 4

The draft treaty also sets forth certain requirements concerning the format for claims. The one-part claim, which is more familiar to U.S. practitioners, will be acceptable in all countries adhering to the treaty. The two-part claim, which has an introductory or background phrase and which is more familiar to European practitioners, is also acceptable.

Unity of Invention Requirements: Article 5

The draft treaty also includes an agreed approach to the unity of invention question, *i.e.*, the number of and relationship of inventions that may be included in one application. The approach now found in the draft treaty evolved from a trilateral effort of the European Patent Office, the Japanese Patent Office and the U.S. Patent and Trademark Office. The approach [discussed at pages __-___] taken will be somewhat more liberal than our present system and will be more in keeping with the approach now taken by the European Patent Office.

Extension of Paris Convention Priority Time Period: Article 7

The Paris Convention affords a 12-month period after filing a patent application in one country for filing the same application in another country and claiming the benefit of the earlier filing date. Draft treaty provisions provide up to two extra months for claiming such earlier filing date under several different circumstances.

Requirements for Patent Application Filing Date: Article 8

While the grace period accommodation in the treaty is viewed as a major concession on the part of most foreign countries to the United States, other provisions of the draft treaty also offer significant benefits to both U.S. inventors filing abroad and to U.S. inventors filing only in the United States. Among the provisions offering advantages to both groups of inventors is the ability to obtain a filing date for a patent application meeting a minimum of requirements. A provision in the draft treaty provides that countries shall give a filing date for essentially only a description, provided it is accompanied by an express or implicit indication that a patent is sought and the identity of the applicant. Furthermore, the description may be in English or may be merely a reference to another application filed earlier in that country or in another country. This minimum requirement will enable U.S. inventors to almost always be assured of obtaining a filing date for their applications both here and abroad.

Patent Protection for All Technologies: Article 10

Another significant provision calls for patent protection for all technologies. Such a provision would require the countries adhering to the treaty to offer protection for the technologies that such countries presently excluded from protection. Among the well known exclusions from patenting presently

found in some countries are chemical or pharmaceutical products or processes, foodstuffs, animal or plant varieties and others. In the United States inventions useful solely in the utilization of special nuclear material or atomic energy in an atomic weapon are excluded from patenting.

Ability to Amend Applications: Article 14

The draft treaty provides that the patent applicant will be assured of opportunities to amend an application both in response to findings that the application does not comply with requirements regarding the description or the claims and on the initiative of the applicant. The amendments cannot go beyond what has been disclosed in the application as filed.

Limitation on the Time for Search and Examination: Article 16

The draft treaty would require that countries that require substantive examination of patent applications publish search reports 18 months after filing, or under exceptional circumstances no later than 24 months after filing. Examination of applications would have to begin within three years of the filing and be completed within two years after examination begins. While such time limits are acceptable to many countries, some countries that have protracted processing of patent applications are resisting such limits.

Ability to Change Patents: Article 17

The draft treaty provides that, at a minimum, adhering countries will have to permit changes to the text or drawings of patents to limit the extent of protection or to correct obvious mistakes or clerical errors. Changes would be prohibited from going beyond the disclosure found in the application as filed. Changes would have to be published. In past discussions the broadened re-issue practice of the United States had been objected to by a number of countries, but such practice would not be precluded by the language now under consideration.

Elimination of Pre-grant Opposition: Article 18

A small number of countries currently maintain a pre-grant opposition system which greatly prolongs the period for obtaining a patent. Under such a system members of the public may formally oppose the grant of a patent. A provision in the draft treaty calls for the elimination of such systems. Four countries party to the European Patent Convention which maintain such systems in their national laws have indicated that the systems will be eliminated in the future. Japan, which also has such a system, has not yet made such a commitment.

Rights Conferred by a Patent: Article 19

As to rights conferred by a patent, the draft treaty includes our familiar rights of being able to exclude someone from making, using or selling the patented invention. Interestingly enough, the draft treaty requires that additional

rights be extended to patentees, namely the rights to exclude additional acts such as the offering for sale or the putting on the marketing or the importing or the stocking of the invention. The United States has offered a proposal to limit these additional acts to importing, which would still require a change in U.S. law. The draft treaty also addresses the extent of protection and the interpretation of claims. Certain assurances are built into the treaty including a requirement that a claim will not only protect what is described by the literal wording of the claim, but a claim will also reach equivalents to what is claimed. This provision will be particularly important for patentees in countries such as Japan, where it is often questioned whether such protection is available. Another part of this provision provides that the claims are not limited to examples found in the description nor are limitations found in the examples to be read into the claims. This is also important to better define the protection afforded by the claims.

Patent Term: Article 22

The draft treaty also provides for a twenty-year patent term measured from the filing date. This will slightly lengthen the average term of protection in the United States. Such a term is generally acceptable to most U.S. interests although several corporations have noted that this may afford a shorter term of protection for some technologies where patent application prosecution lasts longer.

If the term of a patent is measured from the filing date, rather than from the grant date as at present, consideration has to be given to whether the United States would wish to institute what is referred to as an internal priority system. Such systems are found presently in Europe and in Japan where the first application filed is not relied on to measure the term of protection if a second application claiming the priority of the first application is filed within 12 months. This would be similar to the U.S. continuation practice where the second application is filed within 12 months and the term of protection would then be measured from the filing date of that second application.

Remedies for Infringement: Article 23

The draft treaty also provides for certain minimum remedies for infringement that will be afforded the patent holder by the laws of the countries adhering to the treaty. The patentee is assured of the availability of both injunctive and compensatory relief from infringements.

Reversal of Burden of Proof for Patented Processes: Article 24

A draft treaty provision provides for the reversal of the burden of proof under certain circumstances in regard to the products of allegedly infringed patented processes. The criteria for the reversal of the burden is still under discussion. Some of the countries wish to limit the availability of the reversal to situations where the product is new whereas others including the United States are seeking to have other criteria. The developing countries prefer to have no provision on the matter.

RECENT LIMITATIONS BY THE DEVELOPING COUNTRIES

While most of the discussions that have taken place in earlier meetings involved North/North discussions, *i.e.*, discussions among the developed countries, this changed dramatically in the [most recent, June 1990] session. In that meeting some 25 developing countries introduced a series of proposals into the discussions. One of the proposals of the developing countries permits numerous exceptions to the patenting of all technologies as now called for by Article 10 Alternative A of the draft treaty. The developing countries proposal essentially permits any country to patent or not patent any technology, as it wishes. Other developing country proposals call for no patent term requirement, no obligation regarding the reversal of the burden of proof for certain infringement proceedings and a weak provision regarding rights conferred by a patent. Several new topics have also been proposed by the developing countries, but have not as yet been discussed. One proposal obliges the rights holder to make a "best mode" disclosure, to work the invention and "in respect of license contracts and contracts assigning patents, to refrain from engaging in abusive, restrictive or anticompetitive practices adversely affecting the transfer of technology." Another proposal ensures the compliance of the rights holder with these obligations by authorizing any country to take appropriate measures including the grant of non-voluntary licenses and the revocation or forfeiture of the patent.

THE GATT EFFORT

The new round of trade talks under the GATT began in 1986 and are scheduled to be concluded in December 1990. . . .

Among the patent topics proposed by the United States and others and under discussion in the GATT [TRIPS] talks, are patentable subject matter, a minimum patent term, minimum rights conferred by patents, and enforcement of those rights. An obligation to have a first-to-file patent system has also been called for by others. The developing countries have also introduced proposals in the GATT discussions similar to those they introduced in WIPO setting forth obligations of patent holders and authorizing countries to take remedial measures to ensure compliance with those obligations.

THE IMPACT OF GATT ON WIPO EFFORTS

While the various countries in the patent law harmonization discussions are each attempting to preserve as much of their [sic] existing patent law as possible, the final decisions which will be taken on some of the patent law harmonization topics may depend on the results of the discussion of like topics in the new round of [GATT] trade talks . . . A final determination by the GATT negotiations is expected by December 7, 1990. That determination will undoubtedly heavily influence the WIPO results for the overlapping patent topics. If the GATT successfully concludes the present round of talks and intellectual property and patents is part of the results, those results will dictate the

nature of the related provisions in the WIPO draft treaty.

FUTURE WIPO EFFORTS

In a WIPO committee of experts meeting from October 29 to November 9, 1990, Articles 18 to 37 of the draft treaty will be discussed. These discussions will include most of the developing countries proposals. From these discussions and the discussions which took place in June on Articles 1 to 17, WIPO will develop a basic proposal for the diplomatic conference to consider. The basic proposal will contain alternatives for a number of the more contentious topics. The Government of the Netherlands has extended an invitation to host the diplomatic conference and the diplomatic conference will be held in The Hague from June 3 to 28, 1991. Fortunately, this is after the conclusion of the GATT talks.

OUTLOOK

What is the outlook for the United States? Conclusion of a GATT agreement which includes intellectual property and patents in particular is possible and it will dictate some of the patent provisions of a patent law harmonization treaty. The United States is being faced with an ever-increasingly more powerful and united Europe and a somewhat more strident and organized group of developing countries. The United States must carefully consider the value of patent law harmonization, now or in the very near future, not only for our rights holders but also for the future technological, economic and industrial well-being of this country. Clearly, harmonization of the patent laws of the world could serve the interests of the United States and clearly, some sort of patent law harmonization treaty is possible. What is not clear is what has to be in the final treaty in order to obtain sufficient support in the United States for adherence to the treaty and the passage of the necessary implementing legislation. What we hope to achieve in the treaty as concluded are provisions which on balance will be acceptable to most U.S. interests.

. . .

INTERVENTION OF H.F. MANBECK
(Head of Delegation, United States)
RECORDS OF THE FIRST PART OF THE DIPLOMATIC CONFERENCE FOR THE CONCLUSION OF A TREATY SUPPLEMENTING THE PARIS CONVENTION AS FAR AS PATENTS ARE CONCERNED
Nineteenth Meeting, Main Committee I, The Hague (June 19, 1991)

Mr. MANBECK (United States of America) . . .expressed the hope that all present understood and believed that the United States would like to see the development of a successful harmonization treaty which would simplify and expedite the obtaining of patent protection around the world and strengthen the protection once granted. During the series of meetings of the Committee of Experts that preceded the Diplomatic Conference, a draft treaty evolved that

required changes in the laws of all countries in the interests of harmonization, yet allowed countries to optionally maintain certain aspects of their existing national or regional patent laws. The United States was being asked to make a number of changes in its laws. The changes included, apart from first-to-file, mandatory publication of applications, a patent term measured from the filing date, the right to prevent importation of patented products, elimination of the *Hilmer* rule concerning the effective date of foreign-origin United States patents, to mention a few. It was that draft treaty that had been considered by the various interest groups in the United States and supported by some and objected to by others. Some of the support had been conditioned on the inclusion of certain features, as had been heard from some United States interest groups, and some of the objections were limited to certain provisions, namely, of course, first-to-file.

What now faced the United States negotiators during the interval between the sessions of the Diplomatic Conference was the task of convincing its various interest groups and the United States Congress that the present package was still of overall benefit to the United States' interests. That would be difficult to do because the text that had evolved during the first session of the Diplomatic Conference represented a shift away from United States interests.

He stated that his Delegation understood the disappointment of many participants regarding its request to amend Article 9 in order to maximize its chances of participation in the final version of the treaty. It had heard them and understood that they wanted it to reconsider its position and to seek a consensus that would allow it to move to a first-to-file system. He hoped they would understand when he told them that, based on the direction of negotiations during those past three weeks, the interested circles in the United States might never get to the point of approving first-to-file because they might well lose interest and enthusiasm while evaluating the many changes the Treaty would presently require in the law of the United States of America, coupled with the loss of the strengthening improvements sought by the Delegation of the United States of America in the basic proposal. If the United States had to make major changes in its law, and obtain no improvements in the laws of others, it was not realistic to think that a treaty along such lines could be approved in the United States.

He turned then to some of the specific problems that had been created for the United States at the Conference. First, it would be particularly difficult for its various interest groups to understand and agree to a provision in the treaty which would require the United States to consider oral disclosures anywhere in the world as prior art. He did not believe his Delegation could explain satisfactorily to its Congress that it would be required to issue patents on inventions which differed only in obvious details from the disclosures contained in earlier-filed United States patent applications—imposing confusion on the U.S. public in the name of reducing so-called secret prior art. It would be precluded from its present practice of always including the inventor's name on patent documents. It would be required to accept changes in its claim practice regarding multiple dependent claims even though no one at the Conference could cite a compelling example of the need to have that type of practice.

Not only was the United States being asked to make those changes to its law, but it was now facing the possibility that a number of improvements it had sought in the protection of inventions in other countries would not be realized.

One of the major improvements it thought the Treaty would provide was an effective Article regarding the time limits for promptly completing examination. Although that Article had not been deleted, it noted that a majority of the government delegations present spoke against it. Without some discipline on time limits, there would be no guarantee in the Treaty of obtaining a meaningful term of patent protection. Likewise, the requirement to provide applicants with the ability to file by referring to earlier applications had been made optional. Its interested circles would not like that. The elimination of self-collision seemed not to be achievable based on the discussion on that topic. His Delegation simply did not understand why. Prior user rights were also a difficult subject, new to it, and as to which it trusted a suitable compromise would be achieved.

It was his hope that in the interval between the sessions careful consideration would be given to accommodating the interests of all countries, and particularly those of the United States, so that a significant number of countries, such as his, that would be required to make fundamental changes to their law. would have sufficient reasons to conclude that, overall, the Treaty would be beneficial and warranted adherence. His Delegation would work to satisfy the needs of other delegations and hoped that it could do so, but it would certainly not be successful unless others could likewise agree to satisfy its needs. . .

NOTES AND QUESTIONS

1. Part of the "balanced package" sought by the United States in exchange for abandoning its first to invent system was a worldwide grace period. This initiative was vigorously supported by inventor communities in many countries, including Germany. Germany had a grace period in its patent law until the entry into force of the Strasbourg Unification Convention. *See* Heinz Bardehle, *The WIPO Harmonization Treaty and the Grace Period*, 30 IND. PROP. 372 (1991). In June, 1999, the Intergovernmental Conference of the members of the EPO began explorations of the possibility of instituting a grace period in Europe. A summary of those discussions and arguments pro and con can be found at the website of the European Patent Office at <http://www.epo.co.at/news/headlns/2000_07_25_e.htm>

2. In January 1994, the U.S. Secretary of Commerce announced that negotiations toward substantive harmonization of patent law had collapsed, and the U.S. Commissioner of Patents announced that the USPTO had reached an agreement with the Japanese Patent Office to support 18-month publication of patent applications in the United States in exchange for removal of post-grant opposition proceedings in Japan and permission to file applications in the JPO in English. Both announcements were made on the same day. Publication of most U.S. patent applications at 18 months from filing became part of U.S. law in 1999. *See* 35 U.S.C. § 122(b).

3. While the June 1990 revolt by 25 developing countries, referenced in Commissioner Manbeck's intervention, triggered the U.S. response, the primary reason for the failure of the PLT negotiations in 1991 was the inability of the United States to abandon its first-to-invent system. Two years later, the United States got the real prize that it wanted from the developing countries in the form of Article 27 of the TRIPS Agreement which states that

"patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Subject to paragraph 4 of Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article, patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced." The history of TRIPS as set forth in the *Canada-Pharmaceuticals* decision excerpted in the following section refers to those negotiations.

b. The TRIPS Agreement

J.H. Reichman, UNIVERSAL MINIMUM STANDARDS OF INTELLECTUAL PROPERTY PROTECTION UNDER THE TRIPS COMPONENT OF THE WTO AGREEMENT

29 Int. Lawyer 345, 351-8 (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 patentees' 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 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 27(1)

Patentable Subject Matter

Patents shall be available and patent rights enjoyable without discrimination as to the field of technology.

Article 28

Rights Conferred

(1) 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.

Article 31

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

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.

NOTES AND QUESTIONS

1. It is sometimes suggested that developing countries benefit from foreign pressure to strengthen their patent systems. *See* Edmund W. Kitch, *The Patent Policy of Developing Countries*, 13 UCLA PAC. BASIN L.J. 166 (1995). There is considerable opposition to this view from some writers in developing countries, such as Argentina, who assert that strong patents lead not to more investment or inventiveness in developing countries but rather to more wealth transfer from the developing to the developed countries. *See e.g.*, Carlos Maria Correa, *Intellectual Property Rights and Foreign Direct Investment*, (ECOSOC ST/CTC/SER.A/24 1993). A more strident rhetoric, by an academic writer opining that the TRIPS Agreement is "amoral," is found in Michelle McGrath, *The Patent Provisions in TRIPS: Protecting Reasonable Remuneration for Services Rendered–Or the Latest Development in Western Colonialism*, 18 Eur. Intell. Prop. Rev. 398 (1996). The terms of the North-South intellectual property debate as posed by the developing nations in the early days of the Uruguay Round were straightforward and simple: "How can the developing nations in the South get the best access to technological innovations made *elsewhere*—that is, in the developed countries of the North?" Intellectual property protection was deemed an issue for the developed world -- not the developing one. The stance of Brazil and India, among others, on IPRs at the beginning of the Uruguay round was as follows:

- rigid IP protection impedes access to latest technological innovations, and therefore restricts the participation of developing countries in international trade;
- "abusive use" of IPRs distorts international trade;
- what is "trade-related" about intellectual property rights is the restrictive and anticompetitive behavior of the owners of intellectual property and not the behavior of commercial interests in developing countries or that of their governments;
- patent systems can have adverse effects in critical sectors such as food production, poverty alleviation, health care and disease prevention, and have a dampening effect on the promotion of R&D in developing countries and

in improving their technological capabilities;

- systems for the protection of IPRs are by nature monopolistic and sovereign nations should be free to attune their own systems of intellectual property protection to their own needs and conditions. India's attitude changed in 1990. MICHAEL P. RYAN, KNOWLEDGE DIPLOMACY (1998).

2. What is the difference in usage between the terms "intellectual property" [IP] and "intellectual property *rights*" [IPRs]? In the context of international trade law, the latter term is common. The reverse is true in the international intellectual property community. According to one commentator:

> Characterizing patent protections as a kind of intellectual property "right" was a first step in setting the terms of debate. This characterization is of course not novel; patents, trademarks, and copyrights have long been viewed as intellectual property rights. This is evidenced, in part, by the common reference to intellectual property rights by the acronym "IPR." Nor is the characterization, from a legal standpoint, startling or at all surprising. Lawyers commonly understand that the holders of government-authorized powers have "rights," without attaching any particular moral force to the term. In the debate over international patent policy, however, the use of the term "right" exercised an important influence. As a preliminary matter, it is important to recognize that while "rights" may be commonplace in legal discourse, the allocation or recognition of a right may nonetheless privilege certain actions or relations. Characterizing something as a right tends to immunize it from challenge both in practice and in the realm of ideas. To transgress a right is to "violate" it, to commit a wrong. To define something as a right is to remove it, more or less, from political challenge. Even if it is not considered a "natural" right; in moral terms, a right is supposed to be somewhat inviolate.
>
> While rights talk may have the general effect in legal discourse of elevating the defined conduct or relationship above politics, that effect was particularly strong in the case of patent policy. The vociferous insistence of industry and the U.S. government assumed a moral character This was an especially notable accomplishment in light of the intangible nature of intellectual property. Additionally, intellectual property is more obviously a creation of the state than other sorts of property. Hence it intuitively enjoys less of a moral right than other property claims. At the practical level, one does not receive a patent until an invention is certified by the state as new, useful, and nonobvious. This makes it unusually clear that the state could choose not to grant the right at all. At the conceptual level, patent rights evaporate after a set period. Governments may grant patents for longer or shorter periods, on conditions, or not at all. The characterization of an inventor or producer's intellectual property interest as a "right" works to obscure the contingent nature of the patent.

Robert Weissman, *A Long, Strange TRIPS: The Pharmaceutical Industry Drive To Harmonize Global Intellectual Property Rules, And The Remaining WTO Legal Alternatives Available To Third World Countries*, 17 U. PA. J. INT'L ECON. L. 1069, 1086-7 (1996). Is the author correct that the nature of a patent is merely contingent? Does the term "IPRs" frame the debate in a way different than the term "IP" does—particularly with regard to the identity of the owner? Or is this a distinction without a difference? Are "rights" created by statutes? *See generally* R. NOZICK, ANARCHY, STATE AND UTOPIA (1974); Ned Miltenberg, *The Revolutionary Right to a Remedy*, TRIAL 48-52 (March 1988).

3. The U.S. position at the start of the Uruguay Round leading to the eventual adoption of the TRIPS Agreement is set forth in a 1987 General Accounting Office report entitled "International Trade: Strengthening Worldwide Protection of Intellectual Property Rights", GAO/NSIAD-87-65. *See also* OTA, *Disseminating Information: Evolution of a Concept*, 64 ECONOMIC IMPACT 18 (1988). The entire focus of the report is on foreign piracy of U.S. intellectual property. There is no mention of compulsory licensing allowed to member states under Article 5 of the Paris Convention as part of the U.S. agenda. For an interesting discussion of the history of the shift in the U.S. position, *see generally* Michael P. Ryan, KNOWLEDGE DIPLOMACY (Brookings 1998).

4. An excellent survey of compulsory licensing policies and of compulsory licensing provisions worldwide just prior to the enactment of the TRIPS Agreement in 1995 may be found in Gianna Julian-Arnold, *International Compulsory Licensing: The Rationales And The Reality*, 33 IDEA: J.L. & Tech. 349 (1993). Rarely are such provisions exercised. It has been noted that, for example in Australia, there have been only two applications ever for a compulsory license, and both were rejected. *See* THOMAS A. MANDEVILLE, UNDERSTANDING NOVELTY: INFORMATION, TECHNOLOGICAL CHANGE AND THE PATENT SYSTEM 24 (1996).

5. It has been asserted that Article 30 TRIPS allows a state to establish working requirements. Would such a course of action be consistent with Article 5 of the Paris Convention as incorporated by Article 3 of TRIPS? What about price controls? Can a developing country use the lever of price controls to achieve what it cannot through compulsory licensing? *See* Weissman, *supra*, at 1111-23*; see also* Richard P. Rozek and Ruth Berkowitz, *The Effects of Patent Protection on the Prices of Pharmaceutical Products—Is Intellectual Property Protection Raising the Drug Bill in Developing Countries?,* 1 J. WORLD INTELL. PROP. 179 (1998); Thomas G. Field, Jr., *Pharmaceuticals and Intellectual Property: Meeting Needs Throughout the World*, 31 IDEA 3 (1990).

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. . .

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.

IV. ARGUMENTS OF THE PARTIES

A. EUROPEAN COMMUNITIES

. . .

The European Communities and their member States argued that, by allowing manufacturing and stockpiling of pharmaceutical products under Sections 55.2(2) and (3) of the Patent Act together with the Manufacturing and Storage of Patented Medicines Regulations during the six months immediately

prior to the expiration of the 20-year patent term, Canada breached its obligations under Articles 28.1 and 33 of the TRIPS Agreement. The following points were advanced in support of this argument:

* Canadian law allowed all the acts referred to in Article 28.1(a) of the TRIPS Agreement, if a product patent was concerned, and Article 28.1(b) of the Agreement, if a process patent was concerned, with the sole exception of the act of selling to a distributor or consumer without the consent of the patent owner from six months before the expiry of the 20-year patent term. In other words Canada only provided for 19 years and six months of the minimum patent protection as mandated by Articles 28.1 and 33 of the TRIPS Agreement.

* In practical terms this meant that anybody in Canada was allowed to perform the acts of making, constructing and using of the invention during the last six months of the patent term without the authorization of the patent holder. This possibility was automatic for anybody in Canada, i.e. no particular authorization had to be applied for and eventually granted by a Canadian authority. The faculty was entirely unqualified in terms of the extent and volume of the use and no royalty fees whatsoever had to be paid to the patent holder nor did the latter have any right to be informed of such unauthorized use of his invention. Both product and process patents were subject to this denial of protection.

* To the best of the knowledge of the European Communities and their member States, Canada was the only country in the world--industrialized or developing--which allowed manufacturing and stockpiling of products covered by a patent during the term of such a patent. Canada itself recognized that, at least in the United States and the member States of the European Communities, such a possibility did not exist.

The European Communities and their member States argued that, by treating patent holders in the field of pharmaceutical inventions less favourably than inventions in all other fields of technology, Canada infringed its obligations contained in Article 27.1 of the TRIPS Agreement. The following points were advanced in support of this argument:

* The Canadian patent legislation, which under Section 55.2(2) and 55.2(3) together with the Manufacturing and Storage of Patented Medicines Regulations practically speaking provided only for a 19-year term of patent protection, applied exclusively to product and process patents for inventions in the field of pharmaceutical products. During the legislative process, other fields of technology were not even considered and no draft legislation to extend the scope of these provisions to other or all fields of technology was, according to the information available to the European Communities and their Member States, presently pending in the Canadian legislature. In this context, it was also noteworthy that Section 55.2(2) of the Canadian Patent Act was, taken in isolation, an inoperative provision and created only legal effects through the promulgation of the Manufacturing and Storage of Patented Medicines Regulations. This Regulation was expressly limited to "patented medicines" and could not apply to any other product.

* Thus, the Canadian legislation discriminated against pharmaceutical inventions by treating them less favourably than inventions in all

other fields of technology and therefore Canada violated its obligations under Article 27.1 of the TRIPS Agreement.

The European Communities and their member States argued that Section 55.2(1) of the Canadian Patent Act allowed all activities related to the development and submission of information required to obtain marketing approval for pharmaceutical products carried out by a third party without the consent of the patent holder at any time during the patent term, notwithstanding the exclusive rights stipulated in Article 28.1 of the TRIPS Agreement. These activities were completely unlimited in quantity and extent and included the acts of offering for sale and selling, at least insofar as any manufacturer of the patented product or process could invoke this right, if only the final purchaser of the product had the intention to use the product for "[] uses reasonably related to the development and submission of information required under the law of Canada, a province or a country other than Canada that regulates the manufacture, construction, use or sale of any product". Therefore, Section 55.2(1) of the Canadian Patent Act had to be considered to be incompatible with the provisions of Article 28.1(a) and (b) of the TRIPS Agreement. The following points were advanced in support of this argument:

* The permissible activities under Section 55.2(1) of the Canadian Patent Act were not limited in time. In other words, they might be performed without the consent of the right holder at any point in time during the 20-year patent term.

* Section 55.2(1) of the Patent Act took away all the rights a patent granted its owner, i.e. making, constructing, using (this included importing) and selling, and did not stipulate any quantitative limits for these activities. The only limitation set out by the law consisted in the objective of these activities, i.e. they must be " reasonably related to the development and submission of information" required for obtaining marketing approval anywhere in the world.

* The requirements for obtaining marketing approval for pharmaceutical products in industrialized countries were similar and broadly focused on three criteria: safety, quality and efficacy of the product. Thus, the documentation required by the national drug administrations contained information on the composition, manufacture, quality control and stability of the product. This included also in Canada proof that a full production line was viable and could involve full batch testing , which in turn required the production of significant quantities of the product protected by a patent. The non-clinical testing information that was required related to the pharmacological effects of the product in relation to the proposed use in humans and to the toxicological effects of the product on the organism and in different organs. The clinical test data which had to be compiled constituted by far the most important part of the marketing approval activities as far as time, resources and costs were concerned. It was typically subdivided into three phases starting out from tests in small doses administered to a small number of patients (phase I) to the use of the product in wide-ranging comparative studies involving large numbers of patients which could go into tens of thousands for some indications (phases II and III).

* It was also noteworthy that Section 55.2(1) of the Canadian

Patent Act did not only allow all the activities mentioned in the text to be carried out by somebody who had himself the intention to use the substances for preparing his application for marketing approval, but allowed such activities as manufacturing, importing and selling for anybody, if only the results of these activities were eventually intended to be used by somebody else for his application to a marketing approval authority in any country of the world. Here it was important to understand that, while research-based pharmaceutical companies did generally produce the active pharmaceutical ingredients in-house, many - in particular small and medium-sized - copy (generic) producers sourced the active ingredients from independent manufacturers domestically or from abroad. The reason for this was linked to the fact that the production of the active ingredients was often highly capital intensive and once the equipment was in place and running, huge quantities could be manufactured by a very small staff in a short period of time.

* The interplay and cumulation of all these possibilities led to a situation that very significant quantities of the products protected by a patent could be manufactured, imported and sold without the consent of the patent holder at any time during the patent term.

* There existed no provisions under the laws of the EC member States which would allow a party to carry out the activities referred to in Section 55.2(1) of the Canadian Patent Act without the consent of the patent owner.

The European Communities and their member States argued that, by allowing all the activities referred to . . . above related to the development and submission of information required to obtain marketing approval for pharmaceutical products and carried out by a third party without the consent of the patent holder at any time during the patent term, Canada treated holders of pharmaceutical patents less favourably than holders of patents in all other fields of technology and thus violated its obligations under Article 27.1 of the TRIPS Agreement. The following points were advanced in support of this argument:

* It was true that Section 55.2(1) of the Canadian Patent Act did not mention expressly pharmaceuticals or medicines, but referred to cases where " Canada, a province or a country other than Canada [] regulates the manufacture, construction, use or sale of any product"; it was in effect only applied to pharmaceutical products. This was not astonishing because the considerations in relation to the formulation and adoption of Bill C-91, of which Section 55.2(1) of the Patent Act formed a pivotal part, were exclusively concerned with the treatment of pharmaceutical products.

* While the text of the law read as if this provision would apply to all fields of technology, it did in practice only apply to pharmaceuticals. This became apparent from the legislative history of this provision, where in the discussions - to the extent that reports were available to the European Communities and their member States - other areas of technology were not even mentioned. The Canadian authorities had confirmed in the formal consultations under the DSU that this provision was applied only to pharmaceuticals. This was particularly interesting in a situation where for many other categories of products " the development and submission of information [is] required under any law of Canada, a province or a country other than Canada that regulates the

manufacture, construction, use or sale of (such) products". The product categories meeting this condition included agricultural chemical products, certain foodstuffs, motor vehicles, aircraft, ships and many more.

* While the manufacture, construction, use or sale of a great plethora of products were, under the laws of Canada, its provinces or any other country, subject to regulations, Section 55.2(1) of the Patent Act did not apply to these other fields of products; in none of these areas did Section 55.2(1) of the Patent Act apply. This was confirmed by Canada in the formal consultations under the DSU.

The European Communities and their member States advanced the following information about the historical developments in Canada as well as a comparison between the situation in Canada before and after the introduction of Bill C-91 and the Manufacturing and Storage of Patented Medicines Regulations in 1993, taking the view that the curtailment of patent rights for pharmaceuticals as pursued by Canada was incompatible with the patent provisions of the TRIPS Agreement independently of whether it was presented as a compulsory licence, as under the pre-C-91 system or as "exceptions" under the C-91 system itself:

* Patent protection in Canada had been in place for many decades and also inventions in the field of pharmaceuticals had been patentable under the ordinary conditions. As early as 1923, Canada modified the patent protection for pharmaceuticals by introducing a regime of compulsory licences for pharmaceuticals. Compulsory licences allowed a third party without the authorization of the owner of the patent to make, use or sell patented pharmaceuticals. The compulsory licence could be granted at any time during the patent term. The patentee was entitled to the payment of royalties by the beneficiary of the compulsory licence.

* Because the granting of the compulsory licences was subject to the requirement that the active ingredients used in the pharmaceutical product be produced in Canada, few compulsory licences were effectively granted at the time, since it was difficult to obtain Canadian-made active ingredients.

* In 1969, the requirement to produce the active ingredient in Canada was dropped having as a consequence that numerous compulsory licences were granted thereafter. The licensing fee amounted generally to 4 per cent of the sales price of the products produced under the compulsory licence, which often covered several patents.

* In 1987, the Canadian Patent Act was further amended by replacing the previous term of protection of 17 years from the time the patent was granted by one of 20 years from the time the patent application was filed. This amendment entered into force in 1989. Under this new regime, compulsory licences continued to be available but were limited in time. Such compulsory licences could be obtained after the patented product had been on the Canadian market for seven years, if the licensee intended to produce in Canada, or ten years if he intended to import the active ingredient. These amendments had as practical effect that the patent holder was guaranteed at least seven years (ten years if the holder of the compulsory licence did not intend to produce or source locally) of patent protection.

* Canada further modified its patent laws by the Patent Act

Amendment Act, 1992 (Bill C-91), which entered into force in February 1993. While inventions in the area of pharmaceuticals were under the pre-C-91 patent regime only patentable as process patents (or so-called 'product-by-process patents'), product patents for pharmaceutical inventions were only introduced by C-91 in 1993. The major modification consisted of the elimination of the existing compulsory licensing system for pharmaceuticals and the introduction of exceptions to the patent rights of the holder of a patent in the area of pharmaceuticals which were at issue in the present case. In order to understand the motivation of the Canadian authorities one had to look at the historic situation in 1991 and 1992 as far as international rulemaking on intellectual property issues to which Canada was a party was concerned.

* In December 1991, the then Director-General of the General Agreement on Tariffs and Trade, Arthur Dunkel, had compiled a Draft Final Act for the conclusion of the Uruguay Round negotiations, which also contained a text of the draft Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).[3] The text of the TRIPS Agreement as contained in the so-called Dunkel text was informally agreed by all parties to the negotiations and became practically verbatim part of the Agreement finally adopted in 1994 in Marrakesh. The TRIPS Agreement contained in Article 31 detailed provisions on "Use Without the Authorization of the Right Holder". It was certain that the Canadian regime on compulsory licences for pharmaceutical products existing in the pre-C-91 system would have been incompatible with Article 31 of the TRIPS Agreement. This had been expressly admitted by the Canadian Government.

* While the Uruguay Round negotiations were somewhat in limbo in 1991/1992, the negotiations on a North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States of America were concluded in 1992 and the agreement was signed at the end of 1992. NAFTA contained in Chapter Seventeen extensive disciplines on the protection of intellectual property rights. The provisions of Chapter Seventeen were largely based on, and in many instances were a verbatim reproduction of, the provisions of the then draft TRIPS Agreement.[4] Article 31 of the TRIPS Agreement was reproduced almost identically in Article 1709(10) of NAFTA. Thus, the Canadian compulsory licensing system for pharmaceuticals in the pre-C-91 system would also have been incompatible with Canada's obligations under NAFTA, in particular its Article 1709(10). This conclusion had been expressly stated by the Canadian Government.

* In order to fully appreciate the Canadian 'philosophy' for patent protection in the area of pharmaceutical products, it was important to understand the interplay between pharmaceutical research, patenting of inventions and granting of marketing approval for medicinal products. From the moment an application for a pharmaceutical product or process patent was filed until the resulting pharmaceutical product could be effectively marketed it took on average between eight and 12 years. This period of eight to 12 years was necessary for product development which included important periods for pre-clinical and clinical testing. Subsequent to the testing activities, the submissions for the marketing approval authority had to be prepared and the latter had to process the submitted information. This meant in practical terms that, under the present patent law provisions of Canada, a holder of a

pharmaceutical patent enjoyed an effective patent term of eight to 12 years in which he could claim exclusivity on the market and it was during this period that all R&D costs had to be depreciated on sales. Under the pre-C-91 system, compulsory licences were automatically granted to all Canadian operators who wanted to copy the invention after the patented pharmaceutical product had been on the Canadian market for at least seven years (or ten years if the active ingredients for the generic product were imported). Furthermore, a period of at least two-and-a-half years for obtaining marketing approval in Canada for the copy product had to be taken into consideration because, under the previous Canadian patent law, producers of copy products could only start to generate pre-marketing approval testing activities once the compulsory licence had been granted . For the holder of the patent for the original product this system provided for a period of effective market exclusivity from nine-and-a-half years to 12 years. This also had as a consequence that the effective market exclusivity for the patent holder went in certain cases beyond the end of the 20-year patent term. To put it in a nutshell, the economic situation in terms of effective market exclusivity for the holder of the patent under the old 1989 to 1993 system, which granted on average 11 years , was indeed very similar to the C-91 system from 1994, which granted on average a market exclusivity for the patent holder of ten years.

The European Communities and their member States, in support of their claims, also advanced information of the economic losses suffered by their pharmaceutical industry from the effects of Sections 55.2(1) and 55.2(2) of the Patent Act together with the Manufacturing and Storage of Patented Medicines Regulations. The European research-based pharmaceutical industry (EFPIA) had made an analysis of its alleged losses suffered in Canada, which exceeded the amount of C$ 100 million per year. This analysis was based on the conservative assumption that, while the operation of the provisions referred to above would allow copy manufacturers to market the product immediately upon patent expiry, in the absence of these provisions effective marketing would only be possible at the earliest two years after patent term expiry. The extrapolation was based on sales of the top 100 original pharmaceutical products sold in Canada between 1995 and 1997.

In respect of Article 30 of the TRIPS Agreement, the European Communities and their member States initially took the position that, while Canada, during the formal consultations under the DSU, had invoked Article 30 of the TRIPS Agreement to justify the measures at issue, it had done so in a rather summary and rudimentary manner. Therefore, the EC limited itself in its first written submission in this regard to stating that their view was that the Canadian measures could not be justified under Article 30, because the conditions set out in this provision were not met: the curtailment of patent rights under Canadian legislation did not constitute "limited exceptions to the exclusive rights conferred by a patent". Furthermore, the exceptions unreasonably conflicted with a normal exploitation of a patent and unreasonably prejudiced the legitimate interests of the patent owner, taking account of the legitimate interests of third parties. In any event, a violation of Article 27.1 of the TRIPS Agreement could not be justified under Article 30.

B. CANADA

Canada, in response, requested the Panel to dismiss the complaint of the European Communities and their member States, submitting that:

(1) Canada's exceptions to the exclusive rights conferred by a patent were "limited exceptions" within the meaning of Article 30 of the TRIPS Agreement, because they: did not conflict in any mode or manner with the "normal exploitation" of a patent; they did not prejudice, or if they did, they did not "unreasonably prejudice" the "legitimate interests" of a patentee taking account of the "legitimate interests" of third parties; and the third party interests that the exceptions took account of were "legitimate interests" of relevant third parties.

(2)(a) the prohibition in Article 27.1 of the TRIPS Agreement against discrimination on the basis of field of technology did not apply to allowable limited exceptions;

(2)(b) in any event, Canada's limited exceptions to the exclusive rights conferred by a patent did not discriminate as to the field of technology in which an invention occurred, because they related to products that were subject to laws regulating the manufacture, construction, use or sale of a product and were not expressly related to any particular field of technology; and

(3) as regards Article 33 of the TRIPS Agreement, Canada's limited exceptions to the exclusive rights conferred by a patent did not reduce the term of protection accorded to a patent, because they did nothing to impair a patentee's right to exploit its patent for the full term of protection by working the patent for its private commercial advantage.

Canada argued that the essential question in these proceedings was whether the provisions of Section 55.2(1) and 55.2(2) were "limited exceptions to the exclusive rights conferred by a patent", within the meaning of Article 30 of the TRIPS Agreement. According to Canada, these two measures:

(a) were "limited exceptions" within the meaning of Article 30, since they allowed patent owners complete freedom to exploit their rights throughout the full term of patent protection, leaving the monopoly of commercial exploitation and the exclusivity of economic benefits unimpaired for the life of the patent;

(b) did not conflict with a normal exploitation of a patent or prejudice the legitimate interests of the patent owner, since they only affected the patent owner's commercial exploitation after the patent had expired;

(c) in any event, took into account Canada's national interest in measures conducive to social welfare and the achievement of a balance between rights and obligations, both of which were recognized objectives in Article 7 of the TRIPS Agreement; and

(d) in particular, as required by Article 30, took account of the legitimate interests of third parties, in that:

* they allowed potential competitors to compete freely with the patentee after the patent expired, consistent with the policy of full competition underlying the requirement of Article 29 that, in return for the grant of patent protection, patentees must disclose their inventions to the public; the provision of Article 33 that the exclusive rights be conferred for a specified term only; and

the authorization in Article 40 of national measures to prevent abuse of intellectual property rights having an adverse effect on competition; and

* they sought to protect public health - a value recognized in Article 8.1 of the TRIPS Agreement - through promoting access to cost-effective generic medicines following patent expiry and, in this connection, they took into account the legitimate interests of individuals, private insurers and public sector entities that financed health care in maintaining access to affordable medicines.

According to Canada, Article 30 allowed uses that did not unreasonably conflict with a normal exploitation of the patent or unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties. Canada submitted that Article 30 therefore authorized measures that limited exclusive rights, provided that no commercial exploitation - i.e. sales - took place during the patent term. Any other interpretation would:

* ignore the existence of the word "unreasonably" in Article 30 and, thereby, the fact that conflicts with normal exploitation and prejudice to the patent owner's interests were allowed;

* disregard the public policy principles inherent in Articles 29 and 33, which encouraged free and open competition with the patent owner immediately upon expiry of the patent; and

* as a consequence, where regulatory review delayed the entry of competing products on the market, promote the practice of enforcing patent rights within the patent term so as to extend the monopoly of the patent owner beyond the term, a policy which the European Communities and their member States had sought to have included in the Agreement, but which had not been so included, i.e. as the European Communities and their member States made plain in their first written submission, they sought to win through litigation the windfall period of protection that they could not secure by negotiation.

Canada further referred to the interpretative rule set out in Article 31 of the Vienna Convention on the Law of Treaties and argued that the terms of any international treaty, including the TRIPS Agreement, were to be interpreted in good faith in accordance with their ordinary meaning in their context and in light of the object and purpose of the treaty. When the exception provisions in Part II of the TRIPS Agreement were interpreted in accordance with this rule, it became apparent that Article 30 provided a general and flexible authority for Members to adopt measures that balanced the interests of patent owners with the interests of others, as Article 7 of the Agreement expressly stated was an objective of the TRIPS Agreement.

* The language of Article 30 was markedly different from other provisions, which allowed exceptions to treaty rights. For example, GATT 1994, Article XX, required - as in paragraph(b) - that the exception measures be necessary to protect human health, and it contained additional restrictions in its chapeau portion. No similar restrictions were required under Article 30. Similarly, Article 13 of the TRIPS Agreement (and Article 9(2) of the Berne Convention for the Protection of Literary and Artistic Works (1971), upon which Article 13 was modelled), did not allow conflict with a normal exploitation of the work.

* Thus, the TRIPS Agreement contemplated that Members might, in implementing their obligations within their legal systems, adopt measures which, like those in issue here, introduced limited exceptions to the exclusive rights conferred by a patent and confined the patent monopoly to the specific term for which it was granted, in the interests of promoting full competition in regulated-product markets after the expiry of that term and of realizing the cost-saving benefits that competition in those markets (particularly the health care products market) conferred on society. The TRIPS Agreement did not contemplate that these important societal interests should be overridden by an alleged right of patentees to exploit time-consuming regulatory review systems - which were neither designed nor intended to protect intellectual property rights - in order to extend the term of patent protection and to gain a windfall monopoly.

* Equally, the TRIPS Agreement did not contemplate that these important societal interests should be overridden by the anti-discrimination requirement of its Article 27.1. This provision was not intended to require "across-the-board" derogations from patent rights. That would only defeat the purpose of Article 30 of permitting exceptions that were "limited", and would compel the application of exceptions where they were not needed. Instead, since Article 27.1 did not purport to define the "patent rights" that it required to be made available and enjoyable without discrimination, those rights were the ones enumerated in Article 28.1 of the Agreement, subject to any exception that might be made under Article 30. This interpretation gave effect to the language of Article 27.1 in its context rather than in isolation, and achieved the balance contemplated by Article 7 as an objective of the TRIPS Agreement.

Object, Purpose and Meaning

In order to answer the essential question in these proceedings, i.e. whether the challenged measures were "limited exceptions" within the meaning of Article 30 , Canada argued that the language of Article 30 must be interpreted according to the rules of interpretation contained in the Vienna Convention on the Law of Treaties. Article 31, paragraph 1, of that Convention set out the basic principle that "[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". Article 31, paragraph 2, of the Vienna Convention went on to specify that the context in which treaty terms were to be read included, among other things, the preamble to the treaty. Canada advanced the following points as being important to bear in mind in seeking to ascertain the scope of Article 30:

* The first recital in the Preamble of the TRIPS Agreement stated that Members were"[d]esiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade" (emphasis added by Canada). The Preamble thus evidenced Members' understanding that protection for intellectual property rights should not go beyond what was "effective and adequate", since any greater level of security would imperil other important interests.

* That basic understanding was expanded upon in Article 7 of the Agreement, where its objectives were stated. Article 7 made it clear that intellectual property rights were not conferred in a vacuum, and that the TRIPS Agreement therefore did not aim to achieve a degree of protection for those rights which would unduly prejudice the vital public interest in social and economic welfare or the rights of others. Article 7 provided that "[t]he 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*" (emphasis added by Canada).

* When Article 30 was read in context, it could be seen that it reflected the recognition and agreement of Members that the full application of all Article 28 rights at all times and in all circumstances would be inconsistent with the "balanced" objectives of the TRIPS Agreement. Unlike provisions such as Articles 31 and 40, which permitted measures that curtailed the rights of patent holders only where specified conditions were met, Article 30 granted Members the discretion to limit the full application of patent rights in light of the particular circumstances that prevailed in their respective jurisdictions, when balance was required and when social and economic welfare had to be considered. The existence of such a discretion was consistent with the provision of Article 1.1 that Members should be free to determine the appropriate method of implementing the provisions of the TRIPS Agreement, which provisions of course included Articles 7 and 30 as well as Articles 27, 28 and 33.

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

* During the Uruguay Round, an adequate exception provision had been an integral part of the negotiations. Proposals, particularly for exceptions to patent rights, had been made by many Members.

* Although agreeing on the need for safeguard provisions, the negotiators could not agree on the specific circumstances that would merit protection, and had chosen the broad criteria-based text that now appeared as Article 30. Article 30 was not limited to any particular circumstance. It was not limited by reference to any particular purpose or policy objective. It was not limited to any particular type of exception. It was not limited by reference to an exhaustive list of eligible exceptions. Nor was it limited by reference to an illustrative, but non-exhaustive list of special cases justifying an exception.

* More particularly, Article 30 did not require a Member invoking its application to prove that its measure was not a disguised restriction on international trade, unlike the chapeau of GATT 1994, Article XX. Similarly, Article 30 did not require a Member to prove that its measure was the least trade-restrictive possible, unlike Article 2.2 of the Agreement on Technical Barriers to Trade and Article 5.6 of the Agreement on the Application of Sanitary and Phytosanitary Measures. Neither did it require a Member to prove that its measure was necessary for any particular purpose, such as "to protect

human, animal or plant life or health", as in paragraph (b) of GATT 1994, Article XX. In addition, unlike Article 2.2 of the Agreement on Technical Barriers to Trade, there was nothing in Article 30 even requiring that a Member's measure fulfil a particular objective or take account of the risks that non-fulfilment would create.

* Article 30 also differed significantly from the other exceptions of the TRIPS Agreement itself. Article 13 (copyright) stipulated that "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". Article 17 (trademarks) provided that "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" (emphases added).

* By way of contrast, Article 30 was not confined to certain special cases or fair use, and it did allow conflict with a normal exploitation of the patent, provided that the conflict was not unreasonable. In other words, unlike the other provisions referred to above, there was nothing in Article 30 indicating a limited or special application.

* The extent or scope of the exceptions authorized by Article 30 were only restricted by the requirements that:

(a) they must be "limited";

(b) they must not "unreasonably conflict with a normal exploitation of the patent[...] taking account of the legitimate interests of third parties"; and

(c) they must not "[...] unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties".

Canada argued that the exceptions created by subsections 55.2(1) and (2) of its Patent Act met each of the above requirements, for the following reasons.

(i) Section 55.2(1) and 55.2(2) created limited exceptions

* Canada's measures were "limited" within the ordinary meaning of that word. The early working exception was restricted to the narrow circumstance where a third party made, constructed, used or sold a patented invention solely for purposes reasonably related to regulatory review. The stockpiling exception could only be used by the person who had relied on the first exception, and was limited to the last six months of the relevant patent. Neither measure affected commercial sales by the patent holder during the term or any other economic benefit of a patent, such as the profit that could be earned through licensing royalties or the sale of the right.

* Subsection 55.2(1) permitted a third party to use a patented invention without infringement liability only where the third party made, constructed, used or sold a patented invention solely for uses of the invention that were reasonably related to the development and submission of information required under any law that regulated the manufacture, construction, use or sale of a product to which the invention related. (The reference to selling the invention was necessitated by the fact that a generic drug manufacturer had to

usually purchase the active ingredient for its product from a fine chemical producer. Other technical"transfers" made in the course of a regulatory review submission would include administration of the drug to test subjects and use of an outside laboratory for priority testing.)

* The contention by the European Communities and their member States that the activities excepted from infringement liability were unlimited in time, quantity and extent, could not be reconciled with the unequivocal wording that Canada's Parliament had used. In particular, the allegations that "very significant quantities of the products protected by a patent" could be manufactured, imported and sold, and that "only the final purchaser of the product" need have the intention to use it for the purposes of a regulatory submission, were at complete variance with the clear requirement that "any person" who engaged in the activities must do so "solely" for uses connected with the development of a regulatory submission. Every other use of a patented invention would be exposed to infringement liability. Significantly, the EC did not explain how this plain language could be misconstrued in the manner for which it contended, and did not refer to any rule of statutory interpretation in support of its position.

* Subsection 55.2(2) permitted only the third party who made, constructed, used or sold a patented invention, in the manner contemplated by subsection 55.2(1), to make, construct or use the invention without infringement liability during the last six months of the patent term only for the purposes of the manufacture and storage of articles intended for sale after the date on which the term of the patent expired.

* The attack of the European Communities and their member States on this exception again adopted an interpretation of the language which was not supported by the plain meaning of the words used. The EU alleged that the stockpiling provision could be relied upon by"anybody in Canada". Manifestly, that was not so. Subsection 55.2(2) was expressly limited in its application to a person who had engaged in the activities specified in subsection 55.2(1), i.e. a person who had developed information for the purposes of a regulatory submission. Nothing in the language of subsection 55.2(2) lent any support to the allegation that it had a broader application, and the EC offered no explanation at all for interpreting it that way.

* While limiting the right to bring infringement proceedings in the narrow circumstances described in subsections 55.2(1) and 55.2(2), the excepting measures did not otherwise curtail any of the exclusive rights enjoyed by the patent owner. The right holder continued, throughout the full term of protection, to possess the right to bring infringement proceedings to restrain others from any acts of making, using, offering for sale, selling or importing the patented subject-matter outside the restricted scope of the exceptions under Section 55.2. The unsubstantiated allegation that widespread infringing activities could occur during the patent term did not respect the ordinary meaning of the words actually used in the exceptions.

* In fact, all of the effects which the European Communities and their member States complained about occurred after the term of protection had expired. The extension of market exclusivity which was lost because generic manufacturers were permitted to make regulatory submissions during the term

was of course a post-expiry phenomenon. So too were the lost profits that a patent owner would otherwise have realized during that extended period. These effects were simply the practical consequences of legislation designed to ensure that lower-cost competitive products, particularly drug products, reached the market as soon as possible after patent expiry. They were purely commercial concepts, not violations of intellectual property law rights which the TRIPS Agreement either recognized or sought to counteract. The attempt of the European Communities and their member States to equate Canada's present regime with its previous compulsory licensing system failed to acknowledge that all of the principal effects of compulsory licensing were felt during the term of patent protection. A compulsory licensee was permitted to work a patented invention in full competition with the patent owner. That was plainly not the case under the challenged measures, since they prohibited all commercial sales until after patent expiry.

* Additionally, the suggestion of the European Communities and their member States that the period of market exclusivity for the patent holder was about the same under the limited exceptions regime as it was under the former compulsory licensing system was based on a wrong assumption. The pre-Bill C-91 law permitted a compulsory licence to be issued at any time. However, that law went on to provide that such licences would only become effective to permit otherwise infringing activities linked to "sale for consumption in Canada" after the patented product had been on the Canadian market for seven to ten years. The EC was wrong in thinking that this law prevented holders of compulsory licences from undertaking the kinds of activities now envisaged by subsections 55.2(1) and 55.2(2) before the period of suspension had expired, and that the patentee's period of exclusivity was effectively extended. The Supreme Court of Canada had earlier held that such activities were covered by the experimental use defence.

* In any event, even if the respective periods of market exclusivity were about the same, that result would be of no significance in these proceedings. Compulsory licensing was an approach to cost containment adopted by Canada which was fully consistent with the then-existing international rules respecting intellectual property law. When it appeared that those rules would be adjusted by the TRIPS Agreement, Canada moved to amend its domestic legislation, in order to be consistent with the new obligations. Even if conformity with the new obligations resulted in about the same period of market exclusivity as was produced by conformity with the previous rules, that would simply be a coincidence, not a matter of any consequence under the TRIPS Agreement. Again, the effective period of market exclusivity cited by the EU was a purely commercial concept, not an intellectual property law right or concept which the TRIPS Agreement recognized.

(ii) Section 55.2(1) and 55.2(2) did not conflict with a normal exploitation of the patent

* The exclusive rights conferred by a patent were normally exploited by "working" the patent for commercial gain. Typically, this would involve the patentee engaging in any combination of the following activities:

using the patent to manufacture and sell the product as a monopolist; licensing the right to use the invention to others in return for the payment of royalty or other compensation; and selling either a part or the whole of its property right in the invention and its patent. None of these activities was impaired or prevented by the limited exceptions created by subsections 55.2(1) and 55.2(2). The patentee retained the full, unfettered and exclusive right to work the patent for commercial reward during the full term of protection whether by exercising: the unimpaired exclusive right to manufacture and sell the product; the unimpaired exclusive right to license the right to use the invention to others in return for the payment of valuable consideration; and the unimpaired exclusive right to sell, in whole or in part, its property right in the invention and patent. Therefore, at no time during the term of protection, did either exception conflict in any mode or manner with a normal exploitation of the patent.

* Where there was no conflict, "unreasonableness" was not at issue.

(iii) Section 55.2(1) and 55.2(2) did not prejudice the legitimate interests of the patent owner

* The legitimate interests of a patent owner must, by definition, be interests that related to the rights and duties that the patent laws conferred or imposed, as the case might be, on persons who had developed or subsequently acquired a patentable invention. In other words, legitimate interests arose from the status of being a patent holder, not from the more general status of being a business person or a manufacturer. Thus, in return for disclosing an invention to the public and obtaining the grant of a patent, a patent holder had a legitimate interest in exploiting and enforcing for the duration of the term of protection the exclusive right to "work" the patent as a monopolist and to earn the economic returns that rewarded inventive activity and investment. After the term of protection expired, however, the interest in exploiting the invention could no longer be that of a monopolist. Instead, the interest was reduced to: (a) the right to compete on the open market; (b) any trademark interest in the brand name, which subsisted after patent expiry; (c) any right to prevent "passing off" at common law; and (d) any copyright interest in materials describing the product. None of these interests pertained to patent protection and none was affected by Canada's limited exceptions.

* Since the exceptions created by subsections 55.2(1) and 55.2(2) did not conflict with the normal exploitation of the patent during the term of protection, they did nothing to prejudice the legitimate interest of the patent owner in respect of the right to exploit the patent for the full duration of its term of protection. Similarly, since they did not impair a patentee's right to bring infringement proceedings at any time during the term of protection to restrain others from making any commercial sale of the patented invention, they did nothing to prejudice the patent owner's legitimate interest in prohibiting commercial exploitation during the term of protection.

* The interest that a patentee could have in restraining, during the term of protection, the activities that were sheltered from infringement liability by subsections 55.2(1) and 55.2(2) involved exploiting regulatory review laws

which delayed the market entry of competitor products subject to those laws, in order to extend the patentee's monopoly beyond the term of protection specified by the patent law. As was apparent from their submission, it was that windfall period of protection that the European Communities and their member States asserted here. Such gratuitous distortion of the competitive market could not be said to be a legitimate interest. That interest could not be said to be legitimate, because by treaty and domestic law prescription, patents only conferred exclusive rights for a specified term. When the prescribed term expired, so did the exclusive rights. Accordingly, and notwithstanding the private economic advantage that would be obtained by doing so, a patentee could have no legitimate interest deriving from patent law in exercising its exclusive use and enforcement rights within the term of protection to achieve, through exploitation of regulatory review laws, a de facto extension of that term of protection beyond the prescribed period, thereby unilaterally altering the bargain between the patentee and society. In this respect, the interests of a patentee of a pharmaceutical invention could be no different from those of patentees in other fields of technology.

(iv) Section 55.2(1) and 55.2(2) took account of the legitimate interests of third parties

* If, however, a patentee's "normal exploitation" involved more than working the patent for commercial gain, or if the patentee's "legitimate interest" included exercising its exclusive rights during the term so as to extend the term unilaterally beyond the period specified by statute, neither the exploitation nor the interest was affected unreasonably by the disputed measures, "taking account of the legitimate interests of third parties".

* In this context, "third parties" had to be a reference to those who were adverse in interest to the patent owner. Persons not adverse in interest, such as licensees, were already covered by the protection that was extended to the patent owner. Consequently, "third parties" had to mean all those who, not having a property interest in the patent, had an interest in the availability, consumption, cost or production of regulated products that were subject to the protection of a patent. Thus "third parties" included society at large, individual and institutional consumers of such regulated products and would-be competitor producers of those products. In the particular case of pharmaceutical products, the "third parties" included the individual users of Canada's health care system and the public and private sector entities that paid for it.

* This reading of Article 30 was the one that gave proper effect to its terms in the context in which they were found. The TRIPS Agreement as a whole was framed so as to achieve balance between competing interests, and to ensure that the assertion of patent rights did not prevent the realization of other important societal objectives. As stated in the first recital of its Preamble and in the objectives endorsed by its Article 7, the TRIPS Agreement was not intended to promote patent rights at the expense of legitimate trade, social and economic welfare, and the rights of others. In order to achieve the desired balance, these latter interests had been recognized in the reference in Article 30 to "third parties".

* The interests of these third parties were that the exclusive rights granted to patentees for a specified term of protection would be extinguished on the expiry of that term and that competitive conditions would thereafter govern the operation of the previously monopolized market for the regulated products at issue. The interest in the reinstatement of competition was not merely a "legitimate interest", it was a right which derived from the first principles of patent law. As stated in a report to Congress by the United States House of Representatives Committee on Energy and Commerce: "[T]he Constitution empowers Congress to grant exclusive rights to an inventor for a limited time. That limited time should be a definite time and, thereafter, immediate competition should be encouraged."

* Third parties therefore had an undeniably legitimate interest in measures which ensured that patent rights were not exercisable in a manner that effectively extended the term of protection sanctioned by statute, thereby giving the former patentee a gratuitous monopoly and restraining trade unreasonably in the post-expiry market.

* In this regard, it was significant that Articles 8.2 and 40 acknowledged that Members could invoke measures to control the abuse of patent rights by curtailing, whether by compulsory licence or revocation, the patent right for some or all of the remainder of its term of protection. Where such measures could be taken consistently with the Agreement to control the exercise of intellectual property rights that had an abusive or anti-competitive effect during the term specified for their protection, then a fortiori similar measures, which did not conflict with a normal exploitation of the patent, could also be taken consistently with the Agreement to prevent the anti-competitive effects of the patent after its term of protection had expired.

* The legitimacy of the third party interest in the adoption of measures like those enacted by Section 55.2 to counteract the post-expiry monopoly for regulated products was particularly pronounced in the cases of both users and payers of health care products. Public health was a value whose importance was recognized as a matter of principle in Article 8.1 of the TRIPS Agreement. Accordingly, the exercise of exclusive rights in respect of regulated health care products during the term of protection to extend the patentee's monopoly into the post-expiry market was of particular concern in the pharmaceutical products sector: "It is generally accepted that the scope and duration of the patent monopoly must be limited, because monopolies are inherently economically inefficient. A monopolist profits by reducing output below competitive levels and correspondingly raising the price, causing a"deadweight loss" to society. In the pharmaceutical context, outside the patent term, a monopoly would mean that the quantity of drugs available to society would be less than optimal, due to sales at prices considerably higher than marginal cost."

* The cost of health care was a major concern for all WTO Member countries. A significant component of health care costs was the expense of drug therapies. Most Members, including both parties to this dispute, had taken positive measures to contain those costs, including direct price controls and incentives to encourage the use of generic drugs. The latter were particularly relevant here, since the creation of sophisticated and technical review

requirements had meant that the only way to ensure a supply of generic drugs in the market as soon after patent expiry as possible was through an exception to the patent monopoly for purposes related solely to the development of information required to obtain marketing authorization for competitive versions of a patented product.

* The use of generic medicines resulted in important economies for the public health care system, and so contributed to its viability and the protection of public health. In view of this, it was not surprising that Members had pursued a wide variety of measures to promote the use of generic drug products: "The actual level of growth of the generic market is becoming increasingly influenced by regulatory measures being introduced by governments and other payers for health care aimed either at forcing or encouraging the increased use of generic products. These measures have been introduced in response to the rising costs of health care in the major markets."

* Measures that sought to control the costs of the health care system and to ensure access to needed drug therapies were obviously conducive to social welfare. As such, they could properly be adopted by Members pursuant to Article 30, as a means of achieving the balance contemplated by Article 7. In the post-expiry market, the interests of consumers and payers in ensuring access to less costly generic drugs were legitimate and important, while a patentee's interest in extending the period of monopoly was not one that was recognized in the TRIPS Agreement, let alone sanctioned as legitimate.

* The legitimacy of measures to promote the use of generic drug products as means of protecting public health was endorsed by the World Health Organization (WHO). In its resolution scheduled for adoption in May 1999, in connection with its Revised Drug Strategy, the WHO encouraged its members "to explore and review their options under relevant international agreements, including trade agreements, to safeguard access to essential drugs". The WHO's Revised Drug Strategy also called for the use of generic drugs as a necessary means for ensuring a supply of essential drugs for individuals in all member states: "Drug supply is certainly one component of an essential drug policy whose economic advantages have been most studied. Generic drug programmes are today probably the most relevant economic strategy for drug supply. The most important economic feature of generic drugs is that, *unlike the situation with named brands, they allow for competition among producers of a given drug*." (emphasis added by Canada).

* Thus, society at large and individual and institutional consumers of the health care system had an undeniably legitimate, indeed essential, interest in assuring the availability of competitively priced generic medicines as soon after patent expiry as possible. Canada's measures served that interest, and in doing so complied with the fundamental objectives, referred to in the TRIPS Agreement, of promoting social welfare and achieving balance between rights and obligations, while protecting the legitimate interests of intellectual property rights holders.

Canada argued that, firstly, Article 33, read in its context, was clearly limited to defining the longevity of a patent right and did not define the right itself, advancing the following points:

* Patent rights were defined by Article 28, subject of course to any exceptions that might be authorized by Article 30. Thus, to the extent that Article 33 had any bearing on the existence or content of a right, it was subject to the provisions of Articles 28 and 30 of the Agreement.

* Accordingly if, pursuant to the authority of Article 30, the scope of a right under Article 28 was restricted in a manner that could be said to reduce the minimum term of protection, Article 33 could not operate to negate the restriction and restore the right to its original or ordinary scope. It could not operate in that fashion, because the result produced would plainly be absurd.

* If Article 33 could negate an exception under Article 30, then the national laws of all Members which contained exceptions that curtailed, in whole or in part, the scope of a right under Article 28 and thereby limited its enjoyment for the whole or a part of the term of protection, would reduce the term by the degree of curtailment and so contravene or not be consistent with the obligation imposed by Article 33.

Canada then argued that, in any event, neither subsection 55.2(1) nor subsection 55.2(2) of the Patent Act reduced the minimum term of protection referred to in Article 33 of the TRIPS Agreement to a term that was less than that minimum. According to Canada, subsections 55.2(1) and 55.2(2) created limited exceptions which did not conflict with the normal exploitation of a patent so as to reduce the term of protection accorded to the patent. Referring to its arguments as to why the provisions in question created "limited exceptions" within the meaning of Article 30 of the TRIPS Agreement , it drew attention to the following points:

* A patentee whose rights might be affected by the application of the limited exceptions retained the full, unfettered and exclusive right to work the patent for commercial reward during the full term of protection, whether the "working" involved the monopolistic manufacture and sale of the product; the licensing of the right of use to others for valuable consideration; or the sale, in whole or part, of the property right in the patent.

* Similarly, a patentee affected by the limited exceptions continued, throughout the full term of protection, to possess the right to bring infringement proceedings to restrain others from any commercial sale of the patented invention.

* Furthermore, in addition to retaining the rights to work and to restrain, where a person who had used an invention in the manner contemplated by the exceptions sought marketing authorization for a pharmaceutical product during the term of protection on the basis of an alle gation that the person would not infringe the product or product-by-process patent, the patentee could bring a summary proceeding under the Patented Medicines (Notice of Compliance) Regulations to challenge that allegation and, where successful, prohibit the issuance of the marketing authorization until the expiry of the patent.

* Where a patentee could bring such proceedings to prevent the issuance of a marketing approval certificate until the expiry, at the conclusion of the full term of protection, of its patent, it could not be tenably argued that the limited exceptions created by subsections 55.2(1) and 55.2(2) of the Patent Act reduced the term of protection to a term shorter than the term prescribed by

Article 33.

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VII. FINDINGS

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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.

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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.

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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".

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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 exception". 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 exception", the word "limited" must be given a meaning separate from the limitation implicit in the word "exception" itself. The term "limited exception" 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 exception" 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.

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F. SECTION 55.2(1) (THE REGULATORY REVIEW EXCEPTION)

[The panel concluded that Canada's regulatory review exception is a "limited exception" 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".

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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.

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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.

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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.

NOTES AND QUESTIONS

1. The *Canada-Pharmaceuticals* panel report holds 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." What does this say about the nature of the WTO panel/Appellate Body system? We will return to this issue in Chapter VII.

2. On May 5, 2000, the WTO published another panel report on Canada's patent law, upon a request of the United States. *See* Canada-Term of Patent Protection WT/DS170/R (WTO DSB Panel, May 5, 2000). The panel agreed with the United States that Canada's failure to grant a term of at least 20 years from filing on patent applications filed under the Canadian Patent Act prior to 1989 was a violation of its obligation under Article 33 to provide a term of not less than 20 years from filing its obligation under Article 70.2 to provide protection to "all subject matter existing at the date of application of [TRIPS]." In the course of its decision, the panel stated:

> Interpretation of Article 33 as a minimum standard for the expiry of the available term of protection ("minimum standard") is also borne out by Article 1.1 of the TRIPS Agreement which forms part of the context of Article 33. Article 1.1 provides: "Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement."
>
> Article 1.1 confirms that the TRIPS Agreement is a minimum standards agreement in respect of intellectual property rights. The textual reading of Article 1.1 suggests that Members are to "give effect" to, inter alia, Article 33 which obligates Members to make available a term of protection for patents that does not end before 20 years from the date of filing.
>
> By making available a term of protection that runs 17 years from the date of grant for those patents that were filed before 1 October 1989, Section 45 of Canada's Patent Act, on its face, does not meet the minimum standard of Article 33 in all cases. This is confirmed by the figures presented by Canada which show that there were still extant, as of 1 January 2000, approximately 66,936 Old Act patents, representing approximately 40 per cent of the total 169,966 Old Act patents, that would expire before 20 years from the date of filing.

¶¶ 6.86-87.

3. Are industrialized states such as EC or the US likely to bring cases against developing nations for failures similar to Canada's? If so, are such states likely to comply with an unfavorable ruling? The predicted and actual alignment of parties is discussed *infra* in Chapter VII.

5. HARMONIZATION OF PROCEDURAL PATENT LAW: THE NEW PATENT LAW TREATY

Unwilling to admit failure, and after the successful conclusion of TRIPS, WIPO subsequently revived the Patent Law Treaty talks with scope limited to the harmonization of procedures and formalities of patent applications. Those negotiations led to the successful completion at a Diplomatic Conference on June 2, 2000, of a new Patent Law Treaty that was signed by 43 states and regional patent offices, including the United States and the EPO. The PLT harmonization provisions are concerned solely with the form of the application since the United States maintains that it is not in a position to discuss further substantive patent law harmonization in any form whatsoever. The PLT will be discussed at greater length below in Chapter VIII in the context of the multinational acquisition of industrial property rights.

III. THE PARIS CONVENTION

B. TRADEMARK AND UNFAIR COMPETITION LAW

1. HISTORICAL PROBLEMS

Trademark laws, like all intellectual property laws, are territorial in nature. As a general matter, ownership of trademark rights in one country affords no rights to use that mark (or to enjoin others from using the mark) in another country. A trademark has a separate existence in each independent legal system that accords and recognizes trademark rights; the same mark may be owned by different persons in different countries. International commerce has brought into sharp focus the problems and complexities of such geographic formalism, and efforts continue to reach international agreement on principles of trademark protection that transcend national borders. Those international agreements are, however, premised upon underlying notions of territoriality.

a. Territoriality in Trademark Law

MOTHER'S RESTAURANTS v. MOTHER'S OTHER KITCHEN, INC.
218 U.S.P.Q. 1046 (TTAB 1983).

KRUGMAN, Member.

An application has been filed by Mother's Other Kitchen, Inc. to register MOTHER'S OTHER KITCHEN for carry out restaurant services. The word KITCHEN has been disclaimed apart from the mark as shown.

Registration has been opposed by Mother's Restaurants, Incorporated. As grounds for opposition, opposer asserts that applicant's mark so resembles opposer's previously registered mark MOTHER'S PIZZA PARLOUR for restaurant services (the term PIZZA PARLOUR being disclaimed apart from the mark) and previously used marks MOTHER'S and MOTHER'S PIZZA PARLOUR & SPAGHETTI HOUSE both for restaurant services, as to be likely, when applied to applicant's services, to cause confusion, mistake or to deceive.

. . .

With respect to the question of opposer's asserted priority in the pleaded marks MOTHER'S and MOTHER'S PIZZA PARLOUR & SPAGHETTI HOUSE, opposer has shown by way of testimony that its predecessor in interest opened a restaurant under the name MOTHER'S PIZZA PARLOUR in Hamilton, Ontario, Canada on December 1, 1970; that some 55 additional restaurants under the same name subsequently opened up in Canada and the United States; that the first restaurant opened in the United States was in November 1977 in Columbus, Ohio; that opposer since 1971 has used its marks "MOTHER'S" and "MOTHER'S PIZZA PARLOUR & SPAGHETTI HOUSE" in radio advertisements; that many of the radio advertisements used during the period 1971-1977 were broadcast on Canadian radio stations having radio signals reaching the United States, specifically, parts of New York and Michigan; that in

1975, opposer began a promotional campaign for its Canadian restaurants whereby promotional materials were distributed at tourist information booths in southern Ontario; that these promotional packages contained discount coupons and take-out menus using the term "MOTHER'S"; that some 50,000 promotional packages were distributed in the summer of 1975 and the promotional campaign has continued every summer to the present with over 100,000 promotional packages distributed in 1981; and that Americans have dined in opposer's Canadian restaurants as evidenced by a market survey as well as letters from Americans containing comments about their dining experiences at opposer's restaurants as well as business inquiries concerning franchise opportunities from interested Americans. It is opposer's position that applicant, not having taken any testimony or offered any evidence, is limited to its filing date as its date of first use (October 14, 1976); that the aforementioned promotional activities of opposer predated applicant's filing date; and that by virtue of opposer's radio spot advertising and promotional efforts directed to Americans entering Canada from the United States along tourist routes, opposer created good will in the United States market and established service mark rights in MOTHER'S and MOTHER'S PIZZA PARLOUR & SPAGHETTI HOUSE as of 1971. . . . [W]e decline to hold that opposer's promotional activities in Canada regarding MOTHER'S and MOTHER'S PIZZA PARLOUR & SPAGHETTI HOUSE prior to 1976 resulted in superior rights in said marks in the United States so as to preclude applicant from registering a confusingly similar mark. Rather, it is our view that prior use and advertising of a mark in connection with goods or services marketed in a foreign country (whether said advertising occurs inside or outside the United States) creates no priority rights in said mark in the United States as against one who, in good faith, has adopted the same or similar mark for the same or similar goods or services in the United States prior to the foreigner's first use of the mark on goods or services sold and/or offered in the United States . . . at least unless it can be shown that the foreign party's mark was, at the time of the adoption and first use of a similar mark by the first user in the United States, a "famous" mark within the meaning of Vaudauble v. Montmartre, Inc., 193 N.Y.S.2d 332 (N.Y. Sup. Ct. 1959). Under the circumstances, we will limit our determination of the question of likelihood of confusion to an analysis of the mark covered by opposer's registration MOTHER'S PIZZA PARLOUR for restaurant services vis-a-vis the mark covered by applicant's application MOTHER'S OTHER KITCHEN for carry out restaurant services.

. . .

. . . We conclude that purchasers familiar with MOTHER'S PIZZA PARLOUR restaurants would, upon coming into contact with MOTHER'S OTHER KITCHEN carry out restaurants, be likely to believe that they were somehow related as to ownership or that they otherwise shared a common sponsorship or origin. Accordingly, we hold that confusion as to source or origin would be likely for purposes of Section 2(d) of the Trademark Act.

The opposition is sustained and registration to applicant is refused.

ALLEN, Member, concurring in part, dissenting in part.

I fully agree with the decision of the majority holding that opposer's pre-1976 promotional activities in Canada, including spillover advertising into the United States, on behalf of MOTHER'S and MOTHER'S PIZZA PARLOUR & SPAGHETTI HOUSE restaurants in Canada did not bestow upon opposer any superior rights in these service marks in the United States. . . .

. . .

It should be added that the contrary result urged by opposer herein would have enormous consequences, in terms of uncertainty, on our trademark system. Considering the rapid technological advances in telecommunications, especially satellite communications, a television signal transmitting advertising of a restaurant in a distant foreign land can be captured and viewed or retransmitted in the United States by the use of sophisticated disk antennae aimed at the communications satellite and associated equipment. Thus, if mere use of a mark in restaurant services advertising created rights in the United States, without a filing somewhere on a Register capable of being searched, the adoption of a restaurant mark in the United States would be extremely hazardous.

[Board Member Allen disagreed with the majority's conclusion on the question of likely confusion with the prior mark that remained for analysis, and would thus have dismissed the opposition.]

VAUDABLE v. MONTMARTRE, INC.
193 N.Y.S.2d 332 (Sup. Ct. 1959).

HENRY CLAY GREENBERG, Justice.

Plaintiffs, owner and operator of the famous Maxim's restaurant in Paris, move for summary judgment in this action for a permanent injunction restraining defendants, owner and operator of a newly opened restaurant in the Gramercy Park section of this city, from using the name Maxim's. . . .

The French restaurant, Maxim's, was established in 1893 by an individual whose given name was Maxime. It was subsequently sold and all rights therein acquired by plaintiffs. It received wide publicity as the setting of a substantial portion of Lehar's operetta, The Merry Widow, has been the subject over a long period of years of numerous newspaper and magazine articles, and has been mentioned by name and filmed in movies and television. There is no doubt as to its unique and eminent position as a restaurant of international fame and prestige. It is, of course, well known in this country, particularly to the class of people residing in the cosmopolitan city of New York who dine out. Plaintiffs have registered the mark MAXIM'S with the United States Patent Office for catering services and wines, and have merchandised and sold food products under that name, or a variant thereof, in the United States.

The affidavits and exhibits establish not merely that defendants copied the name Maxim's but endeavored to create the illusion of identity with plaintiffs' restaurant. They took the name of Montmartre, a Parisian subdivision, as their corporate name. The decor of their restaurant is so similar in its red and gold color scheme to the French restaurant as to be described in a newspaper article as

its 'replica'. The most significant evidence, however, is the imitation of plaintiffs' distinctive style of script printing of the name Maxim's. Defendants' form of denial is pregnant with admission of the charge. They deny the distinctive script printing in their use of the name Maxim's on the doormat, the match books and the menus, but do not deny such type of printing on the awning, over the door, on credit application cards and in their advertising. The exhibits annexed prove the truth of the charge.

Defendants contend that the name "Maxim" became popular after the invention by two gentlemen bearing that name of smokeless powder and the machine gun and that it has been used in many different types of business. But plaintiffs and their predecessors in title made this name famous in the high-class restaurant field. Whatever the source of the name, it is the origination and development of its use in a particular field which may entitle the user thereof to protection by virtue of the secondary meaning acquired therein.

It is obvious that defendants' purpose is to appropriate the good will plaintiffs have created in the name Maxim's as a restaurant establishment. The fact that they are not in present actual competition is immaterial (Maison Prunier v. Prunier's Restaurant & Cafe, Inc., 159 Misc. 551). A wrongful attempt to suggest an association or connection of some sort is sufficient to warrant relief to prevent confusion in the public mind as well as dilution of plaintiffs' trade name [cit]; and the more distinctive and unique the name, the greater the need for protection from dilution of its distinctive quality (Tiffany & Co. v. Tiffany Productions, Inc., 147 Misc. 679, *aff'd,* 237 App.Div. 801, *aff'd,* 262 N.Y. 482).

The trend of the law, both statutory and decisional, has been to extend the scope of the doctrine of unfair competition, whose basic principle is that commercial unfairness should be restrained whenever it appears that there has been a misappropriation, for the advantage of one person, of a property right belonging to another. [cit]. These plaintiffs are clearly entitled to relief in view of defendants' appropriation of their trade name and calculated imitation of features associated with plaintiffs' restaurant.

No evidence sufficient to create a triable issue of estoppel has been set forth by defendants. Mere failure to proceed against users of the name in other fields or areas is not such acquiescence as precludes the granting of injunctive relief against the present defendants in a field or area where plaintiffs' interests are involved. . . .

Nor is there any evidence of abandonment. The Parisian restaurant, closed during the war, was reopened in 1946 by plaintiffs and fully developed thereafter with expansion of certain activities into other fields and countries. "To constitute an abandonment there must not only be nonuser, but an intent to abandon." [cit]. The facts here shown establish the very reverse of an intent to abandon.

Plaintiffs are accordingly entitled to an injunction restraining defendants from use of the name 'Maxim's', and to an assessment to ascertain the amount of damages, if any, occasioned by defendants' wrongful acts of unfair competition, as demanded in the complaint.

PERSON'S CO., LTD. v. CHRISTMAN
900 F.2d 1565 (Fed. Cir. 1990)

SMITH, Senior Circuit Judge.

Person's Co., Ltd. appeals from the decision of the Patent and Trademark Office Trademark Trial and Appeal Board (Board) which granted summary judgment in favor of Larry Christman and ordered the cancellation of appellant's registration for the mark "PERSON'S" for various apparel items. Appellant Person's Co. seeks cancellation of Christman's registration for the mark "PERSON'S" for wearing apparel on the following grounds: likelihood of confusion based on its prior foreign use, abandonment, and unfair competition within the meaning of the Paris Convention. We affirm the Board's decision.

Background

The facts pertinent to this appeal are as follows: In 1977, Takaya Iwasaki first applied a stylized logo bearing the name "PERSON'S" to clothing in his native Japan. Two years later Iwasaki formed Person's Co., Ltd., a Japanese corporation, to market and distribute the clothing items in retail stores located in Japan.

In 1981, Larry Christman, a U.S. citizen and employee of a sportswear wholesaler, visited a Person's Co. retail store while on a business trip to Japan. Christman purchased several clothing items bearing the "PERSON'S" logo and returned with them to the United States. After consulting with legal counsel and being advised that no one had yet established a claim to the logo in the United States, Christman developed designs for his own "PERSON'S" brand sportswear line based on appellant's products he had purchased in Japan. In February 1982, Christman contracted with a clothing manufacturer to produce clothing articles with the "PERSON'S" logo attached. These clothing items were sold, beginning in April 1982, to sportswear retailers in the northwestern United States. Christman formed Team Concepts, Ltd., a Washington corporation, in May 1983 to continue merchandising his sportswear line, which had expanded to include additional articles such as shoulder bags. All the sportswear marketed by Team Concepts bore either the mark "PERSON'S" or a copy of appellant's globe logo; many of the clothing styles were apparently copied directly from appellant's designs.

In April 1983, Christman filed an application for U.S. trademark registration in an effort to protect the "PERSON'S" mark. Christman believed himself to be the exclusive owner of the right to use and register the mark in the United States and apparently had no knowledge that appellant soon intended to introduce its similar sportswear line under the identical mark in the U.S. market. Christman's registration issued in September 1984 for use on wearing apparel.

In the interim between Christman's first sale and the issuance of his registration, Person's Co., Ltd. became a well known and highly respected force in the Japanese fashion industry. The company, which had previously sold garments under the "PERSON'S" mark only in Japan, began implementing its plan to sell goods under this mark in the United States. According to Mr. Iwasaki, purchases by buyers for resale in the United States occurred as early as November 1982. This was some seven months subsequent to Christman's first

sales in the United States. Person's Co. filed an application for U.S. trademark registration in the following year, and, in 1985, engaged an export trading company to introduce its goods into the U.S. market. The registration for the mark "PERSON'S" issued in August 1985 for use on luggage, clothing and accessories. After recording U.S. sales near $4,000,000 in 1985, Person's Co. granted California distributor Zip Zone International a license to manufacture and sell goods under the "PERSON'S" mark in the United States.

In early 1986, appellant's advertising in the U.S. became known to Christman and both parties became aware of confusion in the marketplace. Person's Co. initiated an action to cancel Christman's registration on the following grounds: (1) likelihood of confusion; (2) abandonment; and (3) unfair competition within the meaning of the Paris Convention. Christman counterclaimed and asserted prior use and likelihood of confusion as grounds for cancellation of the Person's Co. registration.

After some discovery, Christman filed a motion with the Board for summary judgment on all counts. In a well reasoned decision, the Board held for Christman on the grounds that Person's use of the mark in Japan could not be used to establish priority against a "good faith" senior user in U.S. commerce. The Board found no evidence to suggest that the "PERSON'S" mark had acquired any notoriety in this country at the time of its adoption by Christman. Therefore, appellant had no reputation or goodwill upon which Christman could have intended to trade, rendering the unfair competition provisions of the Paris Convention inapplicable. The Board also found that Christman had not abandoned the mark, although sales of articles bearing the mark were often intermittent. The Board granted summary judgment to Christman and ordered appellant's registration cancelled.

The Board held in its opinion on reconsideration that Christman had not adopted the mark in bad faith despite his appropriation of a mark in use by appellant in a foreign country. The Board adopted the view that copying a mark in use in a foreign country is not in bad faith unless the foreign mark is famous in the United States or the copying is undertaken for the purpose of interfering with the prior user's planned expansion into the United States. Person's Co. appeals and requests that this court direct the Board to enter summary judgment in its favor.

Issues

1. Does knowledge of a mark's use outside U.S. commerce preclude good faith adoption and use of the identical mark in the United States prior to the entry of the foreign user into the domestic market?

. . .

Priority

The first ground asserted for cancellation in the present action is section 2(d) of the Lanham Act; each party claims prior use of registered marks which unquestionably are confusingly similar and affixed to similar goods.

Section 1 of the Lanham Act states that "the owner of a trademark *used*

in commerce may register his trademark . . . ." The term "commerce" is defined in Section 45 of the Act as ". . . all commerce which may be lawfully regulated by Congress." No specific Constitutional language gives Congress power to regulate trademarks, so the power of the federal government to provide for trademark registration comes only under its commerce power. The term "used in commerce" in the Lanham Act refers to a sale or transportation of goods bearing the mark in or having an effect on: (1) United States interstate commerce; (2) United States commerce with foreign nations; or (3) United States commerce with the Indian Tribes.

In the present case, appellant Person's Co. relies on its use of the mark in Japan in an attempt to support its claim for priority in the United States. Such foreign use has no effect on U.S. commerce and cannot form the basis for a holding that appellant has priority here. The concept of territoriality is basic to trademark law; trademark rights exist in each country solely according to that country's statutory scheme. Christman was the first to use the mark in United States commerce and the first to obtain a federal registration thereon. Appellant has no basis upon which to claim priority and is the junior user under these facts.[5]

Bad Faith

Appellant vigorously asserts that Christman's adoption and use of the mark in the United States subsequent to Person's Co.'s adoption in Japan is tainted with "bad faith" and that the priority in the United States obtained thereby is insufficient to establish rights superior to those arising from Person's Co.'s prior adoption in a foreign country. Relying on Woman's World Shops, Inc. v. Lane Bryant, Inc., [5 USPQ2d 1985 (TTAB 1985)] Person's Co. argues that a "remote junior user" of a mark obtains no right superior to the "senior user" if the "junior user" has adopted the mark with knowledge of the "senior user's" prior use.[6] In *Woman's World*, the senior user utilized the mark within a limited geographical area. A junior user from a different geographical area of the United States sought unrestricted federal registration for a nearly identical mark, with the exception to its virtually exclusive rights being those of the known senior user. The Board held that such an appropriation with knowledge failed to satisfy the good faith requirements of the Lanham Act and denied the concurrent use rights sought by the junior user. Person's Co. cites *Woman's World* for the proposition that a junior user's adoption and use of a mark with knowledge of another's prior use constitutes bad faith. It is urged that this principle is equitable in nature and should not be limited to knowledge of use within the territory of the United States.

While the facts of the present case are analogous to those in *Woman's World*, the case is distinguishable in one significant respect. In *Woman's World*, the first use of the mark by both the junior and senior users was in United States commerce. In the case at bar, appellant Person's Co., while first to adopt the mark, was not the first user in the United States. Christman is the senior user, and we are aware of no case where a senior user has been charged with bad faith. The concept of bad faith adoption applies to remote junior users seeking concurrent use registrations; in such cases, the likelihood of customer confusion in the remote area may be presumed from proof of the junior user's knowledge. In the

present case, when Christman initiated use of the mark, Person's Co. had not yet entered U.S. commerce. The Person's Co. had no goodwill in the United States and the "PERSON'S" mark had no reputation here. Appellant's argument ignores the territorial nature of trademark rights.

Appellant next asserts that Christman's knowledge of its prior use of the mark in Japan should preclude his acquisition of superior trademark rights in the United States. The Board found that, at the time of registration, Christman was not aware of appellant's intention to enter the U.S. clothing and accessories market in the future. Christman obtained a trademark search on the "PERSON'S" mark and an opinion of competent counsel that the mark was "available" in the United States. Since Appellant had taken no steps to secure registration of the mark in the United States, Christman was aware of no basis for Person's Co. to assert superior rights to use and registration here. Appellant would have us infer bad faith adoption because of Christman's awareness of its use of the mark in Japan, but an inference of bad faith requires something more than mere knowledge of prior use of a similar mark in a foreign country.

As the Board noted below, Christman's prior use in U.S. commerce cannot be discounted solely because he was aware of appellant's use of the mark in Japan. While adoption of a mark with knowledge of a prior actual user in U.S. commerce may give rise to cognizable equities as between the parties, no such equities may be based upon knowledge of a similar mark's existence or on a problematical intent to use such a similar mark in the future. Knowledge of a foreign use does not preclude good faith adoption and use in the United States. While there is some case law supporting a finding of bad faith where (1) the foreign mark is famous here[7] or (2) the use is a nominal one made solely to block the prior foreign user's planned expansion into the United States,[8] as the Board correctly found, neither of these circumstances is present in this case.

We agree with the Board's conclusion that Christman's adoption and use of the mark were in good faith. Christman's adoption of the mark occurred at a time when appellant had not yet entered U.S. commerce; therefore, no prior user was in place to give Christman notice of appellant's potential U.S. rights. Christman's conduct in appropriating and using appellant's mark in a market where he believed the Japanese manufacturer did not compete can hardly be considered unscrupulous commercial conduct.[9] Christman adopted the trademark being used by appellant in Japan, but appellant has not identified any aspect of U.S. trademark law violated by such action. Trademark rights under the Lanham Act arise solely out of use of the mark in U.S. commerce or from ownership of a foreign registration thereon; "the law pertaining to registration of trademarks does not regulate all aspects of business morality." [cit]. When the law has been crafted with the clarity of crystal, it also has the qualities of a glass slipper: it cannot be shoe-horned onto facts it does not fit, no matter how appealing they might appear.

The Paris Convention

Appellant next claims that Christman's adoption and use of the "PERSON'S" mark in the United States constitutes unfair competition under Articles 6*bis* and 10*bis* of the Paris Convention. It is well settled that the

Trademark Trial and Appeal Board cannot adjudicate unfair competition issues in a cancellation or opposition proceeding. The Board's function is to determine whether there is a right to secure or to maintain a registration.

. . .

Conclusion

In *United Drug Co. v. Rectanus Co.*, [248 U.S. 90(1918)], the Supreme Court of the United States determined that "there is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed. . . . Its function is simply to designate the goods as the product of a particular trader and to protect his goodwill against the sale of another's product as his; and it is not the subject of property except in connection with an existing business." In the present case, appellant failed to secure protection for its mark through use in U.S. commerce; therefore, no established business or product line was in place from which trademark rights could arise. Christman was the first to use the mark in U.S. commerce. This first use was not tainted with bad faith by Christman's mere knowledge of appellant's prior foreign use, so the Board's conclusion on the issue of priority was correct. Appellant also raises no factual dispute which is material to the resolution of the issue of abandonment. Accordingly, the grant of summary judgment was entirely in order, and the Board's decision is affirmed.

BUTI v. IMPRESSA PEROSA, S.R.L.
935 F. Supp. 458 (S.D.N.Y. 1996), *aff'd*, 139 F.3d 98 (2d Cir. 1998)

SCHWARTZ, District Judge:

Before the Court is Magistrate Judge Peck's Report and Recommendation urging that the Court grant plaintiffs Tommaso Buti and Fashion World Company (collectively "Buti")—owners of the "Fashion Cafe" in Rockefeller Center in Manhattan—summary judgment on their action seeking a declaratory judgment that defendant Impressa Perosa, S.R.L. ("Impressa")—owner of a "Fashion Cafe" in Milan, Italy—does not have rights in the trademark "Fashion Cafe" for restaurant services and clothing in the United States. Magistrate Judge Peck also recommends that the Court grant Buti summary judgment dismissing Impressa's federal trademark counterclaims with prejudice. . . . For the reasons set forth below, the Court adopts the Report and Recommendation [as regards these motions].

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. . . .

In June-July 1994, Buti commenced plans to open a franchise of theme restaurants, similar to Hard Rock Cafe or Planet Hollywood, but focusing on the fashion model industry instead of rock and roll or film. Buti hired the law firm of Stroock Stroock & Lavan ("Stroock") to perform a trademark search of the "Fashion Cafe" name. After Stroock reported that there was no use or registration of the "Fashion Cafe" mark in the United States, Buti filed an application with the U.S. Patent and Trademark Office for registration of the mark "Fashion Cafe."

In early December 1994, Buti publicized the groundbreaking for the New York Fashion Cafe, including promotion by "supermodels" Claudia Shiffer, Elle Macpherson, Naomi Campbell and Christy Turlington. This generated thousands of television, newspaper and magazine articles worldwide.

Plaintiff Buti's Fashion Cafe restaurant opened in New York on April 7, 1995. The New York Fashion Cafe features a "fashion model motif" with fashion photographs displayed, fashion shows on large-screen televisions, and a large camera lens as the restaurant's entrance. "A key feature of [plaintiff's] Fashion Cafe restaurants is the marketing of an extensive line of apparel and souvenirs bearing the Fashion Cafe logo. The restaurants also serve high quality American cuisine in an elegant setting." Buti invested over ten million dollars to open and operate the New York Fashion Cafe, which in its first year of operation had sales exceeding ten million dollars. Buti has opened another Fashion Cafe in New Orleans, and several others are under construction.

Giorgio Santambrogio is an officer and 33% owner of defendant Impressa Perosa, an Italian company. Santambrogio has ownership interests in several businesses including the Fashion Model Management modeling agency located in Milan, Italy, and two restaurants/cafes in Milan known as the Fashion Cafe and the Grand Fashion Cafe. The Fashion Cafe is a "bar with a cafeteria," not a restaurant, which opened in Milan in 1987; the Grand Fashion Cafe is a restaurant which opened in Milan for one night in October 1994 and then formally opened on February 17, 1995. This litigation centers on the Milan "Fashion Cafe" bar-cafeteria, not the 1995 Milan Grand Fashion Cafe restaurant.

Impressa Perosa registered the Fashion Cafe trademark in Italy in April 1988. Santambrogio maintains that he purchased the name "Fashion Cafe" from Impressa Perosa two to four years ago so that he could develop the business "all over the world."

Santambrogio never opened a restaurant in the United States, nor did he ever sell any food or other merchandise in the United States. Santambrogio never hired a public relations firm or advertising agency in the United States to promote the Fashion Cafe, and no newspaper articles were ever written about his Fashion Cafe.

When Santambrogio visited the U.S., he promoted his Milan Fashion Cafe by giving to models free T-shirts, small gift items with the Milan Fashion Cafe name, business cards and "vouchers" for free food and beverages. Santambrogio maintains that he distributed "literally thousands of T-shirts, cards, and key chains with the [Milan] Fashion Cafe name and logo to persons associated with the modeling and fashion industry which entitled them to free

meals at the Fashion Cafe(s) in Milan ..."

Santambrogio had a "fantasy" "in his brain" that he would approach American hotel chains such as Hilton or Sheraton and try to expand his Milan restaurant into a United States chain, but he admits that he never approached any of the hotel chains about his idea.

When Impressa Perosa heard of Buti's plans to open the New York Fashion Cafe, Impressa Perosa attempted to register the name Fashion Cafe in the United States in December 1994, after Buti had registered his name with the Patent and Trademark Office.

Buti claims that when he "opened the Fashion Cafe restaurant in Miami Beach [in 1993], [he] had never visited the Fashion Cafe in Milan, nor was [he] aware of its existence." Buti further testified that he had never discussed his Miami restaurant with Santambrogio.

. . .

On January 19, 1995—one month after the groundbreaking for the New York Fashion Cafe and its attendant worldwide publicity—counsel for Impressa Perosa wrote to Buti demanding that Buti "cease and desist" from using the "Fashion Cafe" name, and threatened litigation if Buti did not comply. Buti filed this declaratory judgment action in response.

Plaintiff Buti's complaint seeks, *inter alia*, a declaratory judgment that "Defendant does not have rights in the trademark 'Fashion Cafe' for restaurant services or clothing in the United States" and that "Plaintiffs do not infringe trademark rights of Defendant, if such rights exist, ..."

. . .

ANALYSIS

I. Buti's Summary Judgment Motion Should Be Granted on the Federal Trademark Law Claims and Counterclaims Because Impressa Perosa Did Not Use the "Fashion Cafe" Mark in the United States

A. Buti Should Be Granted Summary Judgment on Buti's Federal Trademark Claim and Defendant's First Counterclaim (Under 15 U.S.C. § 1125)

The central issue on plaintiff's declaratory judgment claim, and on defendant's first counterclaim for misappropriation and false designation of origin pursuant to Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), is whether plaintiff or defendant has superior rights to the name "Fashion Cafe" in the United States.

. . .

"[O]wnership of trademark or trade dress rights in the United States is obtained by actual use of a symbol to identify the goods or services of one seller. . . . The way to obtain rights in a business symbol is to actually use it as a mark." [cit]. "Use" means "'the bona fide use of a mark in the ordinary course of trade, and not merely to reserve a right in a mark.'" [cit]. "Unlike patent law, rights in trademarks are not gained through discovery or invention of the mark, but only through actual usage. Trademark priority is not automatically granted to the

person who was first to conceive of the idea of using a given symbol as a mark. . . . To acquire ownership of a trademark, one must actually use the mark in the sale of goods or services."

When two or more companies adopt the same mark, basic rules of trademark priority determine use and ownership of the mark. [cit]. . . .

Determination of priority here depends on the meaning of the "use" of a mark "in commerce." The Lanham Act provides in 15 U.S.C. § 1127 that:

> [A] mark shall be deemed to be in use in commerce—
> (2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.

Indeed, Impressa Perosa "has no quarrel with the plaintiffs . . . that an allegation of actual use of a trademark, service mark or trade name in commerce is necessary to assert a claim pursuant to § 43(a) of the Lanham Act, or that the required sort of commerce is commerce within the United States or commerce between the United States and a foreign country.". . .

1. *Impressa Perosa's 1988 Italian Trademark Registration and Use of the Mark in Italy Do Not Give It Rights to the Mark in the United States*

As explained in McCarthy's trademark treatise:

> Under the territoriality doctrine, a trademark is recognized as having a separate existence in each sovereign territory in which it is registered or legally recognized as a mark. . . .
>
> Priority of trademark rights in the United States depends solely upon priority of use in the United States, not on priority of use anywhere in the world. Prior use in a foreign nation does not establish priority of use in America.

4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION [hereafter "McCarthy"] §§ 29.01[1], 29.01[2](3d ed. 1996);[cit].

It is clear that, without more, Impressa Perosa does not derive any right to the "Fashion Cafe" mark in the United States from either its trademark registration of "Fashion Cafe" in Italy in 1988 or from its operation since 1987 of the Milan Fashion Cafe.

2. *Impressa Perosa's Efforts to Advertise the Milan "Fashion Cafe" in the United States and to Negotiate to Establish a United States Restaurant Do Not Constitute "Use" of the Mark in the United States*

Impressa Perosa asserts that it established its senior right to use the name "Fashion Cafe" in the United States through its promotional efforts of the Milan Fashion Cafe, including distribution in the United States of promotional materials (T-shirts, key chains, business cards and vouchers to models for free meals at the Milan Fashion Cafe), "formulating a plan to put a Fashion Cafe establishment in hotels in major cities," and "actively negotiating with restauranteurs . . . which negotiation is itself use of the name Fashion Cafe in New York."

a. Mere Advertising Unconnected to an Established Business Is Not "Use"

Impressa Perosa "advertised" on behalf of the Milan Fashion Cafe by handing out free promotional materials in the United States to those involved in the fashion industry. However, advertising alone that is not connected to an established United States business does not constitute "use" under the Lanham Act. *See, e.g.*, [cit]; *Cullman Ventures, Inc. v. Columbian Art Works, Inc.*, 717 F.Supp. 96, 112 (S.D.N.Y. 1989) ("Mere advertisement of a product by use of a mark would not constitute common law trademark use. Common law trademark rights develop when goods bearing the mark are placed in the market and followed by continuous commercial utilization."); . . . *Modular Cinemas of America, Inc. v. Mini Cinemas Corp.*, 348 F.Supp. 578, 582 (S.D.N.Y. 1972) ("service mark use ... is still predicated upon the existence of an established operating business. For only then does a mark function to identify the source of one's trade in the marketplace.").

Thus, Santambrogio's United States advertising efforts (via T-shirt, business card and other give-aways to those in the fashion industry) do not suffice in the absence of an operating business using the trademark "Fashion Cafe." It is undisputed that Santambrogio had no such operating business in the United States. The issue, therefore, is whether Santambrogio's advertisement in the United States of his Milan Fashion Cafe constitutes sufficient "use" to give Santambrogio United States trademark rights.

b. United States Advertising of A Foreign Business Is Not "Use" in the United States

While the courts do not appear to have addressed the issue of whether U.S. advertising of a foreign business establishes United States trademark rights, the Patent and Trademark Office's Trademark Trial and Appeal Board has, adversely to Impressa Perosa. The Court notes that neither party cited to these directly on point decisions.

In *Mother's Restaurants Inc.* v. *Mother's Other Kitchen, Inc.*, 218 U.S.P.Q. 1046 (TTAB 1983), . . . the Trademark Trial and Appeal Board held that the Canadian corporation's advertising efforts were not a sufficient use of the mark in the U.S., ...[10]

Likewise, in *Linville v. Rivard*, 26 U.S.P.Q.2d 1508 (TTAB), *vacated and remanded on other grounds*, 11 F.3d 1074 (Fed.Cir.1993), an American beauty salon using the name "Ultracuts" filed a petition to cancel a Canadian corporation's U.S. trademark registration with the same name on the grounds that the Canadian corporation had never made use of the name in the United States. [cit]. The Canadian corporation argued that it had made use of the mark through: meetings in the U.S. with possible franchisees; review of possible sites for stores in the United States; advertisements on Canadian radio stations that also are heard in the U.S.; advertisements in Canadian newspapers read in the U.S.; servicing U.S. citizens who had traveled over the border to his Canadian stores, resulting in $25,000 of annual revenue; and "promotional give-aways and coupons" at a fair in the United States. [cit]. The Trademark Trial and Appeal Board rejected the Canadian corporation's argument that advertising was use of the mark in the United States. [cit]. The Board also held that no United States trademark rights were acquired by United States residents using the Canadian company's services while in Canada, because of the concept of territoriality. . . .

. . .

The *Mother's* and *Linville* decisions by the Trademark Trial and Appeal Board are directly applicable to this "Fashion Cafe" case.[11] If anything, those cases involved even stronger facts for the foreign corporations than the case at bar since in both cases the Canadian corporations placed radio and newspaper advertisements that reached American customers. By contrast, Impressa Perosa's distribution of T-shirts, business cards and other give-aways appears to be a much weaker advertising effort; its purpose was not to attract paying United States customers but to attract models with free food, so their presence would attract people in Milan to attend the Milan Fashion Cafe. Moreover, given the geographic proximity between Canada and the United States, a stronger case could be made that "goodwill" in the mark was established through the American customers who patronized the Canadian shops. Defendant Santambrogio has not alleged that the Milan Fashion Cafe attracted any paying customers from the United States (as opposed to United States fashion models to whom he offered free services). Even if he had, however, these two cases clearly hold that neither advertising efforts nor American patronage in foreign businesses suffice to establish use of the mark in the United States.

c. Buti Is Not Guilty of "Bad Faith" So As to Constitute An Exception to the Mother's Rule

In *Mother's Restaurant* v. *Mother's Other Kitchen*, discussed above, the Trademark Trial and Appeal Board implicitly stated that a party attempting to establish priority rights to a mark in the U.S. must meet a "good faith" requirement as against a prior foreign user. [cit].

Impressa Perosa argues that Buti can not establish good faith since Buti had knowledge of the existence of the Milan Fashion Cafe prior to his establishment of the Miami Beach or New York Fashion Cafes.

First, Santambrogio has not presented any *admissible* evidence that Buti was in or knew of the Milan Fashion Cafe. . . . before he opened a United States Fashion Cafe.

Second, the Court finds that, even if Santambrogio's claims of Buti's prior knowledge of the use of the Fashion Cafe mark in Italy are accepted, that does not establish bad faith on Buti's part. . . .

Person's reasoning is directly applicable to this case. Here, as in *Person's*, Impressa Perosa had not used its mark in the U.S. when Buti initiated use of "Fashion Cafe" in the U.S. Santambrogio conceded at his deposition that, before the December 1994 groundbreaking for Buti's Fashion Cafe, Buti had no way to know of Santambrogio's plan to open a United States Fashion Cafe. Thus, Impressa Perosa has not established Buti's bad faith merely by asserting Buti's knowledge of Impressa Perosa's prior use of the Fashion Cafe name in Italy.

d. The Milan "Fashion Cafe" is Not A "Famous" Mark So As to Come Within the Vaudable Exception to the Mother's Rule

Finally, Impressa Perosa has not argued that the "Fashion Cafe" mark was "famous" as defined by *Vaudable* v. *Montmartre*, 20 Misc.2d (Sup.Ct. N.Y.Co.1959), so as to bring it within the exception described in *Mother's* and *Person's*.

. . .

The Court finds that there is no evidence in the record that Santambrogio's Milan Fashion Cafe ever achieved any level of recognition approaching that of Maxim's so as to be a "famous" foreign mark in the United States. Santambrogio admitted that he never bought advertising in the U.S., never hired a public relations firm, and that no newspaper articles had ever been published in the U.S. referring to the Milan Fashion Cafe.[12] Santambrogio has failed to offer admissible evidence of any "secondary meaning" of its Fashion Cafe in the United States. Accordingly, the Court cannot find the Vaudable exception applicable here.

. . .

CONCLUSION

For the reasons set forth above, plaintiff Buti is the senior user of the mark "Fashion Cafe" in the United States. I recommend that the Court grant plaintiff Buti summary judgment on its declaratory judgment claims and further recommend that the Court grant plaintiff summary judgment dismissing defendant Impressa Perosa's federal trademark claims with prejudice and state law claims without prejudice. Finally, I also recommend that the Court deny defendant Impressa Perosa's cross-request for summary judgment.

McDONALD'S CORP. v. MCDONALD'S CORP. LTD
[1997] FSR 200 (Supreme Court 1996) (Jamaica)

CHESTER ORR J:

. . .

The plaintiff is a corporation existing under the laws of the states of

Delaware, United States of America. It develops, operates franchises and services a world-wide chain of restaurants which operate under the trade name and trade mark "McDonald's". It opened its first McDonald's restaurant in 1955 and as of March 1,1995, the plaintiff and its licensees were operating 15,963 restaurants in 79 countries including the Caribbean.

. . .

The first defendant is a company incorporated in Jamaica on September 16, 1971. . . On December 3, 1971, the first defendant acquired the shares in Cee Bees Ltd which operated a restaurant at 1 Cargill Avenue.

In 1973 the first defendant opened two other restaurants in Kingston, namely the "McDonald's Buttery" and "McDonald's Fast Food". These were closed during the 1970s but the restaurant at 1 Cargill Avenue remained in operation.

. . .

The plaintiff contends that during the 1970s and 1980s it actively pursued the possibility of opening restaurants in Jamaica but that this proved not to be feasible due principally to the stringent foreign exchange regulations in force in Jamaica which were not relaxed until 1994. The defendants seek to rebut this contention by adverting to the fact that during this period a number of foreign restaurant chains, including Burger King, Shakey's and Kentucky Fried Chicken commenced business in Jamaica.

During the period the plaintiff received inquiries from more than 80 individuals, the majority of whom were Jamaican entrepreneurs including the first defendant, expressing an interest in obtaining a licence from the plaintiff to operate in Jamaica.

On July 3,1981, the attorneys for the first defendant wrote to the plaintiff offering to become the plaintiff's franchisee in Jamaica in exchange for the acquisition by the plaintiff of the equity of the first defendant or some form of participation with the plaintiff. The plaintiff states that it rejected the offer. . . .

. . .

In or about November 1992, the first defendant decided to have the building at 1 Cargill Avenue completely refurbished and renovated in an effort to modernise and upgrade the facilities in accordance with the many fast-food outlets which had by then opened in Jamaica. . . .The renovation continued in 1993 but was not completed until the middle of 1995. . . .

In 1994, the plaintiff formalized plans to open restaurants in Jamaica. An announcement was made at a press conference in October 1994 and the opening of the restaurant at Ironshore, Montego Bay was extensively advertised.

. . .

The re-opening of the restaurant at 1 Cargill Avenue was also advertised. Eventually both restaurants were opened. The first defendant's at Cargill Avenue on September 26, 1995 and the plaintiff's at Ironshire on September 28, 1995.

The menu boards and tray liners at Cargill Avenue contained items prefixed by "McD" which the plaintiff states is a colourable imitation of its items. The defendants removed these items and state that it was done in error.

The necessary elements to establish passing off were stated in *Erven Warnink BV and others v J Townend & Sons (Hull) Ltd and others* [1979] 2 All ER 927 (the Advocaat Case).

. . .

Lord Fraser of Tullybelton at 943 formulated the test thus:

> It is essential for the plaintiff in a passing off action to show at least the following facts: (1) that his business consists of, or includes, selling in England a class of goods to which the particular trade name applies; (2) that the class of goods is clearly defined, and that in the minds of the public, or a section of the public, in England, the trade name distinguishes that class from other similar goods; (3) that because of the reputation of the goods, there is good will attached to the name; (4) that he, the plaintiff, as a member of the class of those who sell the goods, is the owner of goodwill in England which is of substantial value; (5) that he has suffered, or is really likely to suffer, substantial damage to his property in the goodwill by reason of the defendants selling goods which are falsely described by the trade name to which the goodwill is attached.

The question arises as to whether the plaintiff has goodwill in Jamaica. There is conflict between the authorities on this point. In *The Athletes Foot Marketing Associates Inc v Cobra Sports Ltd and Another* [1980] RPC 343 Walton J stated the position thus at 349.

> There appear, on the cases, to be two schools of thought about this. There is what was described in argument as a "hard line" school of thought, which maintains that it is essential for the plaintiff to have carried on a trade in the country . . . and a much less demanding approach, which suggests that something less than that will do (well exemplified by *Maxim's Limited v Dye* [1977] 1 WLR 1155, the case concerning the famous restaurant).

In *Maxim's Limited v Dye* it was held that a plaintiff could establish that he had goodwill in England in respect of a foreign business which the courts would protect without it having to be shown that he carried on business in England.

. . .

. . .Several cases were cited to me from countries in the Commonwealth by both Mr Henriques and Mr Hylton supporting both schools of thought. In some of the later cases it was held that it is not necessary for the plaintiff to have a place of business in the jurisdiction, it is sufficient if he has customers there.

In the *Athletes Foot* case, Walton J said at 357.

> . . . the position in law appears to be relatively clear. That is to say it does not matter that the plaintiffs are not at present actually carrying on business in this country, provided that they have customers here. Equally, it is of no moment, if they have no customers here, that they have a reputation in the general sense of the word in this country. It is also of no moment that that reputation may have been brought about by advertising; this can

> be of no moment, unless . . . it brings in customers, when, of course, once again there is no need to rely upon it.

In *Pete Waterman Limited and Others v CBS United Kingdom Limited* [1993] EMLR 27, Sir Nicholas Browne-Wilkinson V-C, as he then was, after reviewing the authorities said at 58:

> The presence of customers in this country is sufficient to constitute the carrying on of business here whether or not there is otherwise a place of business here and whether or not the services are provided here. Once it is found that there are customers, it is open to find that there is a business here to which the local goodwill is attached.
>
> . . .
>
> In *Conagra Inc v McCain Foods Aust Pty Ltd* [1992] 23 IPR 193, a decision of the Full Court of the Federal Court of Australia, . . . it was held:
>
> > It is not necessary that a plaintiff, to maintain a passing off action, have a place of business in Australia nor for his goods to be sold here. It is sufficient if his goods have a reputation in Australia among persons of a sufficient degree to establish there is a likelihood of deception among consumers and damage to his reputation. Reputation may be proved by a variety of means including advertisements on various forms of media and exposure of people within the forum to the goods of the overseas owner.

Both Walton J and Knox J considered it inappropriate to make a final decision between these two schools of thought on interlocutory proceedings. I entirely agree. However, the plaintiff claims it can succeed on both schools of thought. On the one hand it had a reputation in Jamaica prior to the opening of its restaurant at Ironshore on September 28, 1995. This reputation was acquired, inter alia, by advertisements and visitors from Jamaica to its restaurants abroad. On the other hand, it has an established business and customers in Jamaica since September 28, 1995.

[The defendants argued that] the relevant date for determining whether the defendants have in fact damaged the goodwill of the plaintiff is the year 1971 when the first defendant company was formed. At this date the plaintiff had opened restaurants in only four countries, viz, the United States of America, Canada, Puerto Rico and Costa Rica.

[The court decided that these were issues best left for trial and decision based upon a full evidentiary airing. The court concluded that the balance of convenience lay in preserving the status quo until trial, which it achieved by refusing the application for an injunction by the plaintiff and the grant of the defendants' application for an injunction restraining the plaintiff from opening a restaurant in Kingston under the name McDonalds.]

———————————

Jian Tools for Sales Inc v. Roderick Manhattan Grp. Ltd., [1995] FSR 924 (Ch. D. 1995) (Eng.). The plaintiff (Jian) was a Californian company that owned rights in the mark "BizPlan Builder" for a software product designed to assist in the production of a business plan. 250,000 copies of the software have been sold worldwide, in 20 countries including the United States and the U.K. BizPlan Builder was written for U.S. resident users. It used U.S. dollars as currency and the assumption was made that the organization for which a business plan is to be written is established on a U.S. pattern and operates in a U.S. environment, in particular in legal, fiscal and economic structures. Jian had no place of business in the U.K. and did not itself carry on business within it in the sense of having any of its employees active there in selling its product.

In early 1994, the predecessor of RMG was approached by Jian with a view to its undertaking the anglicisation of Jian's BizPlan Builder software, which was necessary to market the product successfully in the U.K. RMG's principal business consisted of republishing for use in the United Kingdom computer software prepared abroad. Negotiations failed, however, and although Jian wrote to RMG on January 29, 1995 indicating that it intended to use its mark worldwide, RMG launched its own product (designed to perform in the U.K. essentially the same function as Jian's BizPlan Builder performed in the United States) under the mark "BusinessPlan Builder." Jian successfully sought an interim injunction based upon passing-off. The principal issue before the court was whether Jian had goodwill in the name "BizPlan Builder" which an English court should protect. To make out a passing off claim under English law, Jian was required to demonstrate goodwill in the U.K. in connection with the name BizPlan Builder as of the date when the defendants started to use the name BusinessPlan Builder.

The court noted that reputation by itself would not suffice; there must be goodwill which cannot exist as an item of property without a business to which the goodwill is annexed. The court quoted *Athletes Foot Marketing Associates Inc v Cobra Sports Ltd* [1980] RPC 343, where Walton J at page 350 said:

> . . . it would appear to me that, as a matter of principle, no trader can complain of passing off as against him in any territory—and it will usually be defined by national boundaries, although it is well conceivable in the modern world that it will not—in which he has no customers, nobody who is in a trade relation with him. This will normally shortly be expressed by saying that he does not carry on any trade in that particular country . . . but the inwardness of it will be that he has no customers in that country: no people who buy his goods or make use of his services (as the case may be) there.

The court read this to mean that if a plaintiff has no customers in this jurisdiction he will not succeed before the U.K. courts in an action for passing off. But it did not follow, the court concluded, that if one customer within the jurisdiction can be found there necessarily is goodwill in the U.K. which the court should protect, even in relation to a plaintiff who has substantial goodwill in other jurisdictions.

The defendants argued that U.K. sales of BizPlan Builder software were

so few that they should be regarded as insufficient to support an action in passing off. Jian claimed since 1988 to have sold 193 products to 168 customers resident in the U.K. The defendant contested this number, arguing (among other things) that some of the customers in the U.K. should be disregarded as being customers of Jian's United States business rather than any business Jian had in the U.K. Most U.K. purchasers had a United States or Canadian factor of one sort or another. For example, some bought the product as a result of seeing magazines that were either published in the United States but circulating in the U.K. or bought by the purchaser in the United States. One of the purchases from the U.K. was a replacement by a satisfied U.K. customer of a previous version bought in the United States. Two U.K. purchases were as a result of a recommendation from a Canadian or United States acquaintance. Three customers who gave testimony had made the purchases while on visits in the United States. In assessing whether Jian had goodwill within the U.K. the court was unwilling to disregard all those who bought Jian's product for reasons having their origins outside the U.K. Although the court accepted that goodwill is local as between jurisdictions, it did not follow that a business should be regarded as divisible in the same way and have apportioned for the purposes of determining where goodwill is situate, customers according to the historic reason for which they have become customers.

In determining whether the plaintiff had made out a triable case that goodwill existed, the court also suggested that the nature of the goods sold or services rendered is something which should be taken into account. It may be significant, the court suggested, that the eating, drinking and making merry involved in cases involving bars and restaurants is essentially a local activity as compared with other rather more durable activities. Applying this conclusion to the case before him, the judge found that the software product was not ephemeral but capable of continued use. He also took into account the fact that although the potential market for the software in question was quite substantial, the products were not saleable to more than a fraction of the population. They were not articles of everyday household utility. On balance, therefore, he concluded that the number of customers Jian had within the jurisdiction was not so small that it could be said on this ground alone that it is not seriously arguable that it has goodwill locally situate within the jurisdiction.

In so holding, the court also distinguished the *Budweiser* case, where the plaintiff American company, when the defendant entered the market, had no customers at all within the jurisdiction, if one ignored the special customers in American PXs and the embassy. According to the court, the principal issue there was whether these sales should be ignored. If they were not ignored but were relevant, as the Court of Appeal there held they were not, there would have been an amply sufficient customer base to support goodwill in the U.K. *Budweiser* was therefore not directly concerned with the problem of a very small customer base in the U.K. in connection with substantial foreign goodwill. Defendant argued that the sales of the software made to U.K. customers were analogous to the sales to PX customers in *Budweiser* because they were generated by foreign sources, such as foreign magazine inspired purchases and recommendations by foreign residents and purchases while in North America. The court rejected the analogy, finding that whereas the PX purchases in the Budweiser case were

purchases which no member of the general public could make, however hard he tried, there was no such watertight compartment here and the sales which Jian has succeeded in making, though few in number and transatlantically inspired, were on the open market in the normal sense of the word.

Accordingly, the court found triable issue on the question of goodwill and granted the interim injunction.

NOTES AND QUESTIONS

1. Why did the *Mother's* panel treat the opposer's registered marks differently from the previously used marks? Would the outcome have been different if the opposer had owned Canadian registrations on the previously used marks? The panel was unwilling to sustain an opposition based upon prior use or advertising of a mark in connection with goods or services marketed in a foreign country regardless whether such advertising occurred inside or outside the United States? Should the location of the advertising use be relevant?

2. In his separate opinion in *Mother's*, Board Member Allen suggested that treating spillover advertising as akin to use in the U.S. would "have enormous consequences, in terms of uncertainty, on our trademark system." What are the dire consequences to which Allen is referring? In what way are the consequences of treating spillover advertising as use any different from according protection to unregistered marks based on use in commerce?

3. Board member Allen also commented that "determination of the issue should not be influenced by whether the case involves goods or services. Although the requirement of use is more easily satisfied in the case of services—use in advertising being sufficient—the definition of commerce in the Trademark Act of 1946 is the same for either kind of mark." The English court in *Jian Tools*, unrestrained by the Lanham Act's definition, appears to believe otherwise. Should the analysis of use be different when dealing with different goods or services?

4. A Canadian court has declined to attach weight, in assessing distinctiveness, to extensive third party use of an identical mark on web sites located in other countries that were electronically accessible from Canada. *See Tele-Direct (Publications) v. Canadian Business Online*, Federal Court of Canada (Sept. 17, 1997), reported at EIPR N-33 (Mar. 1998); *see also Tele-Direct (Publications) Inc. v. American Business Info., Inc.,* (1994) 58 C.P.R. (3d) 10. The defendant argued that the mark YELLOW PAGES for telephone directories had become generic in Canada, and in support of that argument cited extensive uncontrolled third party use of the mark in material circulated electronically but originating in the U.S. rather than Canada. The court refused to consider this international (internet) use in determining distinctiveness of the YELLOW PAGES mark, concluding that "spillover from usage in the U.S." did not constitute third party use in Canada. In what ways should our concept of use accommodate the reality of modern technology, which does not respect geographic borders as product marketing and distribution formerly did? Should the "rapid technological advances" to which Board Member Allen refers cause us to rethink territoriality-based rules rather than retrench them? Should the ubiquity of the internet force us to reconsider approaches such as that followed in

Mother's? Is internet use the same as the so-called "spillover" use at issue in *Mother's*? By holding to the traditional approach are we attempt to establish territorial boundaries where none exist in fact? Should the geographic proximity between Canada and the United States justify a different approach in *Mothers* or *Linville* than in *Buti* or *Person's*? Are there any other grounds upon which to treating Canadian use differently than Italian or Japanese use?

5. The concept of use arises in different areas of trademark analysis. In addition to priority (*Mother's*), the extent of third party use of similar marks can affect assessment of a mark's distinctiveness (*see Tele-Direct*), and use is central to the question of abandonment (as was the case in Linville v. Rinard discussed in *Buti*). Should our territorality-based concept of use be different in these different contexts? Why did the *Vaudable* court consider the question of abandonment? Was the continuity of use in France relevant to the matter before the New York court?

6. The *Vaudable* court noted both that Maxim's "unique and eminent position as a restaurant of international fame and prestige" and the fact that Maxim's was "well known in this country, particularly to the class of people residing in the cosmopolitan city of New York who dine out." Which of these observations was the predicate for the court's holding? Are these observations different? What other considerations might have provided the basis for the court's decision? The court concluded that plaintiffs were entitled to an injunction and to any "damages occasioned by the defendants' wrongful acts of unfair competition." What damages had been sustained by the plaintiffs? Why was an injunction necessary? Which rights of the plaintiff did the injunction protect?

7. You are counsel to Honest Hugh (U.S), Inc., a small New York company involved in the "import-export" business. The CEO of HHI is Mr. Hugh Heffer. While vacationing in Scotland, Mr. Heffer purchased several specially windproofed lambswool sweaters sold under the trademark "GALLUS", which is woven discreetly into the upper half of the sweater. (Unaware of the typical Scottish August climate, Mr. Heffer had packed only light clothing.) Mr. Heffner noticed that the GALLUS sweaters were selling very well, and indeed found them extremely comfortable and aesthetically pleasing. GALLUS sweaters are manufactured and sold by a Scottish company, Pride Sweaters, Inc. ("Pride"), and are aimed at the high quality end of the market. Despite being quite expensive, GALLUS sweaters have sold well throughout Europe, partly because various golfers have endorsed the products by wearing them during golfing events that are televised globally. Pride sells the sweaters mostly in northern European countries, where their windproof qualities are particularly appreciated. Thus far, Pride has not sold any GALLUS sweaters in the U.S., but has sold a lighter cotton sweater under a different trademark in the golf products market in the U.S. Upon returning to New York, Mr. Heffer made some inquiries and discovered that GALLUS sweaters were not sold in the U.S., although he became aware of Pride's other U.S. activities. He would like to distribute sweaters under the GALLUS name in the U.S. A trademark search reveals that no conflicting mark is registered or being used in the U.S. Would you advise Mr. Heffer that he can manufacture and distribute sweaters in the U.S. under the GALLUS mark? What additional information, if any, would you find

helpful? Should Mr. Heffer inquire of Pride whether they intend to expand into the U.S.? Should he contact Pride and seek to negotiate a U.S. distribution agreement?

8. How does the doctrine developed by the U.S. courts to address the conflict between internationally-exploited marks compare with the doctrine of the "good faith remote junior user," by which the courts determine the rights of geographically distant users of the mark within the United States? *See United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 101 (1918) (recognizing junior user's rights because "no suggestion of a sinister purpose" in its adoption of the mark); *see also Woman's World Shops, Inc. v. Lane Bryant*, 5 U.S.P.Q.2d 1985, 1987 (T.T.A.B. 1988) (junior user's adoption of mark *with knowledge* of senior user's prior remote use on similar goods destroys junior user's claim to being a good faith remote junior user); Restatement (Third) of Unfair Competition, § 19 comment d (1995) (recognizing split in courts as to whether knowledge is determinative of junior user's bad faith, and advocating evaluation of knowledge based upon totality of circumstances). Is there are basis for drawing a distinction between these two scenarios, depending upon whether the plaintiff (senior) mark owner has used in a geographically distant country or a state on the other coast of the United States? Is the appropriate domestic analogy, rather than the *Dawn Donuts* rule, the protection offered famous marks against dilution? *Cf. Shells Seafood Restaurants, Inc. v. Atari*, 43 U.S.P.Q.2d 1053, 1055-56 (W.D.N.C. 1997) (hinting that owner of famous mark may be protected against dilution without regard to geographical extent of trading because likelihood of confusion not an element of the dilution claim). If the good faith remote junior user rules were extended to the international context, and the junior user has used the mark on the internet, what would be the geographic area to which the junior user should be restricted? Is internet use global use?

Should *knowledge* of the foreign use of a well-known mark be sufficient to prevent its subsequent adoption in the U.S.? *See Pan American Convention* (February 11, 1929), Ch. II., Art. 7 (knowledge of use of the mark in any Contracting State bars domestic registration); *see also* James A. Carney, *Setting Sights on Trademark Piracy: The Need For Greater Protection Against Imitation of Foreign Trademarks*, 81 Trademark Reporter 30 (1991) (arguing for knowledge standard); Beth Fulkerson, *Theft by Territorialism: A Case For Revising TRIPS to Protect Trademarks From National Market Foreclosure*, 17 Mich. J. Int'l L. 801 (1996) (supporting Carney's proposal); Thomas J. Hoffman & Susan E. Brownstone, *Protection of Rights Acquired By International Reputation Without Use or Registration*, 71 Trademark Reporter 1 (1981). If so, to what extent would the principle of territoriality have been attenuated? If not, to what extent have standards of fair play and principles of honest business practices been sacrificed?

9. Does the *Person's* decision rest primarily upon an examination of (i) Mr. Christman's conduct or knowledge, (ii) the nature of the use of the mark made by The Person's Co, or (iii) the public awareness of the mark in the United States? Are these considerations related? Do you agree that "Christman's conduct in appropriating and using appellant's mark in a market where he believed the Japanese manufacturer did not compete can hardly be considered unscrupulous commercial conduct"? Why is it different from the defendant's

conduct in *Vaudable*? In *Bulk Mfg. Co., Inc. v. Schoenbach Products Co.*, 208 U.S.P.Q. 664 (S.D.N.Y. 1980), the plaintiff claimed trade dress rights in the design of a vending machine. The plaintiff had modeled its machine after a similar machine which its president had purchased in England. The President testified that a survey revealed that the machine was not being sold in the United States at the time. The defendant produced an identical machine, and claimed unclean hands (the copying of the English product) on the part of the plaintiff when the plaintiff sought equitable relief. The court concluded that "plaintiff's conduct in copying and selling the English machine in a market where it believed that the English manufacturer did not compete can hardly be considered unscrupulous commercial conduct, and thus . . . the defense of unclean hands is inapplicable." Is this assessment of commercial morality still accurate today? Should that affect our analysis of trademark issues? How do the interests of consumers weigh in this analysis? Do they?

10. Do you agree with the analysis in *Buti*? If you were counsel to Impressa Perosa, which items of additional evidence might you have sought to develop to make out your case? Which of the various exceptions to strict territoriality would provide the strongest arguments on behalf of your client? How would *Buti* or *Mother's* be decided under the approach of the court in *Jian Tools*?

11. Identify the different standards to which the Jamaican Supreme Court in *McDonald's* considered holding the plaintiff in its attempt to establish rights in Jamaica. Which, if any, of these standards are more lenient than those found in U.S. law and which are stricter? If you were a Jamaican legislator seeking to further Jamaica's economic interests, which standard would you wish to establish? Would your answer be different if you were a French legislator seeking to further French economic interests?

12. Although *Person's* was decided without reliance upon international treaties, the court does make reference to several rules derived from the Paris Convention which may in certain circumstances affect the analysis of similar factual scenarios. This explains the court's cryptic observation in footnote 16 that "Person's Co. does not assert rights under § 44, which if properly applied, might have been used to secure priority over Christman." Similarly, Articles 6*bis* of the Paris Convention imposes obligations on signatory states to offer specific protection to marks that are "well-known," and Article 10*bis* of the same convention imposes an obligation to prevent unfair competition. These three provisions are discussed below at pages ___-___. We will reconsider *Person's* after reading the material on these provisions.

LANGUAGE AND TERRITORY

OTOKOYAMA CO. LTD. v. WINE OF JAPAN IMPORT, INC.
50 U.S.P.Q.2d 1626 (2d Cir. 1999)

LEVAL, Circuit Judge:

This is a trademark dispute between two importers of Japanese sake. Otokoyama Co. Ltd., the registered owner of four U.S. trademarks for the word

"otokoyama" and Japanese language pictograms signifying that word, filed suit against Wine of Japan Import, Inc., alleging, inter alia, that defendant infringed its trademark in violation of the Lanham Act, by importing a brand of sake labelled "Mutsu Otokoyama." Defendant counterclaimed, seeking to cancel plaintiff's trademarks under § 14 of the Lanham Act, 15 U.S.C. § 1064. Defendant contended that 1) otokoyama is a generic term signifying a type of sake and is therefore ineligible for trademark protection, and 2) plaintiff's trademarks were "obtained fraudulently" within the meaning of 15 U.S.C. § 1064(3).

After a hearing, the district court granted plaintiff's motion for a preliminary injunction. On appeal from that order, defendant argues that the district court erred when it refused to consider evidence of the meaning and usage of otokoyama in Japan and refused to consider a ruling of the Japanese trademark office denying plaintiff's application for trademark protection on the ground that otokoyama is generic. We agree that the district court erred in both respects. Applying the correct legal standard and crediting defendant with the improperly excluded evidence, we find that defendant raises sufficient doubt as to the validity of plaintiff's trademark to overcome plaintiff's showing of likelihood of success. We therefore vacate the preliminary injunction.

BACKGROUND

Plaintiff, a Japanese corporation, has been brewing sake—a Japanese wine made from fermented rice—on the northern island of Hokkaido since the 1930s. In Japan, its sake is sold under the name "Hokkai Otokoyama," Hokkai being a reference to the island of Hokkaido. Since 1984, plaintiff has imported its sake into the U.S., where it is marketed and sold as "Otokoyama" brand sake. Plaintiff registered the English transliteration of otokoyama and three trademarks of Japanese pictograms comprising otokoyama with the U.S. Trademark Office.

Defendant is a domestic corporation, which imports various brands of sake into the U.S. Defendant's importation and sale of sake under the designation "Mutsu Otokoyama," begun in or around 1997, is the subject of this suit. As noted, plaintiff claims the defendant's use of otokoyama infringes plaintiff's trademark, while defendant claims that because otokoyama is a generic word for a type of sake, it is not eligible for use as a trademark for sake.

In Japanese pictograms, the word otokoyama is comprised of the characters for "man" and "mountain." The parties dispute the meaning and history of the word in relation to sake, but they agree that its use in Japan in relation to sake dates back at least to the Edo period, which began in the seventeenth century. Paintings from the period show samurai warriors drinking from sake barrels displaying the characters for otokoyama. In Japan, between ten and twenty brewers in addition to plaintiff designate sake as "otokoyama," often (like plaintiff) adding a geographical modifier.

Plaintiff has been unsuccessful in its attempts to obtain trademark rights in Japan for otokoyama. In 1962 (then doing business under the name Yamazaki Shuzo K.K.) plaintiff sought to register the characters for "Hokkai Otokoyama" as a trademark in Japan. The application was rejected, and in 1966 the Japanese Patent Office ("JPO") affirmed the rejection. The JPO issued a written decision,

whose exact translation is disputed,[13] but which apparently signified that the word otokoyama was not eligible for trademark protection because of its longstanding use as a designation for sake by other traders in the industry.

[13] Plaintiff claimed that the correct translation is as follows: "It is clear that the characters of 'Otokoyama' is a trademark/brand which has been commonly used in this industry for the product 'seishu' from olden times."

In 1984, plaintiff became the first company to market sake labelled otokoyama in the United States. Two years later, plaintiff petitioned the United States Patent and Trademark Office ("USPTO") to register the Kanji characters for otokoyama. In processing plaintiff's application, the USPTO asked plaintiff to provide an English translation of the characters. Plaintiff responded with a sworn statement that "to applicant's knowledge, the mark is an arbitrary, fanciful term. Accordingly, the mark cannot be translated." The USPTO granted plaintiff's request to register the mark in 1988.

Between 1992 and 1995, plaintiff sought and obtained U.S. registrations for three other otokoyama trademarks: one each for the Katakana and Hiragana[14] characters for otokoyama, and one for the English transliteration. Again the USPTO asked for English translations, to which plaintiff again responded in sworn declarations that otokoyama is "an arbitrary, fanciful" term that "has no meaning and cannot be translated."

In April, 1997, plaintiff wrote to defendant demanding that it cease importation, distribution, advertisement and sale of "Mutsu Otokoyama." Defendant replied that it believed plaintiff's trademarks were invalid, and refused.

Plaintiff filed suit, alleging trademark infringement, unfair competition, and false designation of origin under the Lanham Act, as well as state law violations, and moved for a preliminary injunction. As noted, defendant challenged the validity of plaintiff's trademarks on two grounds: first, that otokoyama is a generic term for a type of sake, and second, that plaintiff secured its U.S. registrations by fraudulent misrepresentations that concealed from the USPTO otokoyama's usage as a generic term in Japan.

At the preliminary injunction hearing, the court declined to consider any meaning the word otokoyama might have outside the United States, stating that "[t]he meaning of a term outside of the United States is irrelevant" to a determination of entitlement to the protection of the U.S. trademark laws. *Otokoyama Co. Ltd. v. Wine of Japan Import, Inc.*, 985 F.Supp. 372, 376 (S.D.N.Y.1997). The court also declined to consider defendant's proffer of the 1966 decision of the Japanese Patent Office which denied plaintiff's request to register otokoyama in Japan. [cit]. Concluding that plaintiff had shown both irreparable harm and likelihood of success on the merits, the court granted the preliminary injunction. [cit.]

DISCUSSION

. . .[T]he plaintiff in a trademark infringement action establishes a likelihood of success by showing both 1) a legal, exclusive right to the mark, and 2) a likelihood that customers will be confused as to the source of the infringing product. [cit]. To prove likelihood of success below, plaintiff showed that since 1984 it had been importing and selling its sake in the United States under the

label "otokoyama," that it had registered this trademark with the USPTO, and that it had successfully protected the mark against unauthorized use by others.

We review a district court's decision to grant or deny a preliminary injunction for abuse of discretion, which is shown if, inter alia, the district court applies the incorrect legal standard. [cit]. Because the court applied the wrong legal standard and excluded relevant evidence favorable to the defendant's claim, we vacate the injunction.

Defendant contends the district court erred in refusing to consider evidence that otokayama is a generic term for sake, or a type of sake, in the Japanese language as spoken in Japan, and that the district court erred in excluding the decision of the Japanese Patent Office. We agree with defendant that the district court was mistaken in its understanding of the potential significance of the meaning of otokoyama in the Japanese language. We also agree with the defendant that the ruling of the Japanese Patent Office may have been admissible for certain relevant purposes.

I.

It is a bedrock principle of the trademark law that no trader may acquire the exclusive right to the use of a term by which the covered goods or services are designated in the language. Such a term is "generic." Generic terms are not eligible for protection as trademarks; everyone may use them to refer to the goods they designate. [cit.] This rule protects the interest of the consuming public in understanding the nature of goods offered for sale, as well as a fair marketplace among competitors by insuring that every provider may refer to his goods as what they are. *See CES Publ'g Corp. v. St. Regis Publications, Inc.*, 531 F.2d 11, 13 (2d Cir.1975) (Friendly, J.) ("To allow trademark protection for generic terms, *i.e.*, names which describe the genus of goods being sold [is impermissible because] a competitor could not describe his goods as what they are.") (citations omitted); *see also* Restatement (Third) of Unfair Competition § 15 cmt.b ("A seller . . . cannot remove a generic term from the public domain and cast upon competitors the burden of using an alternative name.").

The same rule applies when the word designates the product in a language other than English. This extension rests on the assumption that there are (or someday will be) customers in the United States who speak that foreign language. Because of the diversity of the population of the United States, coupled with temporary visitors, all of whom are part of the United States marketplace, commerce in the United States utilizes innumerable foreign languages. No merchant may obtain the exclusive right over a trademark designation if that exclusivity would prevent competitors from designating a product as what it is in the foreign language their customers know best. Courts and the USPTO apply this policy, known as the doctrine of "foreign equivalents," [cit], to make generic foreign words ineligible for private ownership as trademarks. *See Weiss Noodle [Co. v. Golden Cracknel & Speciality Co.*], 290 F.2d 845, 846-47 (C.C.P.A. 1961) (applying ban on trademarking generic names to foreign equivalents, and holding that "ha-lush-ka," phonetic spelling of Hungarian word for "egg noodles," is non-protectible); *see also In re Le Sorbet, Inc.*, 228 U.S.P.Q. 27, 28 (T.T.A.B.1985)("sorbet," French word for fruit ice, held non-protectible); *In re Hag Aktiengesellschaft*, 155 U.S.P.Q. 598, 599-600 (T.T.A.B.1967)("kaba,"

coffee in Serbian and Ukranian, held non-protectible).

This rule, furthermore, does not apply only to words that designate an entire species. Generic words for sub-classifications or varieties of a good are similarly ineligible for trademark protection. *See, e.g.*, *Genesee Brewing Co., Inc. v. Stroh Brewing Co.*, 124 F.3d 137, 148-49 (2d Cir.1997) ("honey brown" held generic for type of ale); *In re Cooperativa Produttori Latte E Fontina Valle D'Acosta*, 230 U.S.P.Q. 131, 134 (T.T.A.B.1986) ("fontina" held generic for a type of cheese); *In re Northland Aluminum Prods.*, 221 U.S.P.Q. 1110, 1112 (T.T.A.B.1984), ("bundt" held generic for variety of ring-shaped coffee cake), aff'd, 777 F.2d 1556, 1561 (Fed.Cir.1985); *Italian Swiss Colony v. Italian Vineyard Co.*, 158 Cal. 252, 257 (1910)("tipo" held generic Italian word for a chianti wine). A word may also be generic by virtue of its association with a particular region, cultural movement, or legend. *See Holland v. C. & A. Import Corp.*,[15] 8 F.Supp. 259, 260 (S.D.N.Y.1934) ("Est Est Est" held generic for wine from Italy's Montefiascone region); *In re Ricci-Italian Silversmiths, Inc.*, 16 U.S.P.Q.2d 1727, 1729 (T.T.A.B.1990) ("art deco" held generic for flatware made in design style introduced at L'Exposition Internationale des Arts Decoratifs et Industriels Modernes in Paris); *In re Bauhaus Designs Canada Ltd.*, 12 U.S.P.Q.2d 2001, 2003 (T.T.A.B.1989) ("bauhaus" held generic for style of furniture developed at Germany's Bauhaus school of design); [cit].

The defendant contended in the district court that the word "otokoyama" falls within the generic category. It claimed that in Japanese, otokoyama has long been understood as designating a variety of "dry, manly sake" that originated more than 300 years ago. The district court, however, declined to accord any significance to the Japanese meaning of the word. The court stated that the Japanese meaning of otokoyama is "irrelevant to the U.S. PTO's determination of [plaintiff's] trademark rights. . . . [T]he meaning of the term 'otokoyama' in Japan is not relevant to this action."

For the reasons explained above, this was error. If otokoyama in Japanese signifies a type of sake, and one United States merchant were given the exclusive right to use that word to designate its brand of sake, competing merchants would be prevented from calling their product by the word which designates that product in Japanese. Any Japanese-speaking customers and others who are familiar with the Japanese terminology would be misled to believe that there is only one brand of otokoyama available in the United States. *See* Restatement (Third) of Unfair Competition, § 15 cmt.a ("Competitors denied access to a [generic] term that denominates goods or services to prospective purchasers would be at a distinct disadvantage in communicating information regarding the nature or characteristics of their product. Consumers would be forced either to spend additional time and money investigating the characteristics of competing goods or to pay a premium price to the seller with trademark rights in the accepted generic term.").

The meaning of otokoyama in Japanese, and particularly whether it designates sake, or a type or category of sake, was therefore highly relevant to whether plaintiff may assert the exclusive right to use that word as a mark applied to sake. Defendant should have been allowed to introduce evidence of otokoyama's meaning and usage in Japan to support its claim that the mark is generic and therefore ineligible for protection as a trademark. In light of this

error, the district court's finding that plaintiff is likely to succeed on the merits cannot be sustained.

II.

Defendant also challenges the district court's exclusion of the ruling of the Japanese Patent Office denying plaintiff trademark rights in Japan. The district court, citing *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 639 (2d Cir. 1956), ruled that the JPO decision was irrelevant. [cit]. We disagree.

We disagree first with the district court's understanding of the precedent it cited. It is true that a claimant's rights (or lack of rights) to a trademark in the United States cannot be established by the fact that the claimant was found by a foreign court to have (or not to have) rights over the same mark in a foreign country. That is what the *Vanity Fair* opinion meant by its broad statement to the effect that "the decisions of foreign courts concerning the respective trade-mark rights of the parties are irrelevant and inadmissible." [cit]. It does not follow, however, that foreign court decisions are never relevant or admissible for any purpose in a U.S. trademark dispute. Indeed, as authority for the quoted proposition, the *Vanity Fair* opinion cited our ruling in *George W. Luft Co. v. Zande Cosmetic Co.*, 142 F.2d 536, 539 (2d Cir. 1944), which ruled that foreign decisions were relevant and admissible. In *Luft*, the defendant offered various foreign registrations of the disputed mark to prove that the defendants might lawfully use the mark within the foreign country that granted the registration. The district court had excluded them in reliance on *City of Carlsbad v. Kutnow*, 68 F. 794 (S.D.N.Y.), *aff'd*, 71 F. 167 (2d Cir. 1895). The *Luft* Court pointed out that in Carlsbad, "the purpose of introducing the English registration was to prove that the defendants were privileged to use [the mark] on sales in the United States. On this issue a foreign trade-mark was rightly held irrelevant, for clearly the English law could not confer [a trademark right] which our courts were bound to recognize." 142 F.2d at 539 (emphasis added). The opinion goes on, however, to say "We do not think that the *Carlsbad* case controls the case at bar." *Id.* Because "the purpose of offering the foreign registrations was not to establish the privilege of using the [mark] in the United States but to prove that the defendants might lawfully use it within the foreign country which granted the registration," *id.*, the court found that the foreign decisions were relevant and admissible and the district court had erred in failing to consider them.

Whether a foreign decision is relevant in a trademark case in our courts depends on the purpose for which it is offered. The fact that a litigant has been awarded or denied rights over a mark in a foreign country ordinarily does not determine its entitlement to the mark in the United States. The foreign court decision is not admissible if that is the purpose of the offer. But if, as in *Luft*, the foreign decision is competent evidence of a relevant fact, it is relevant and admissible to prove that fact.

Defendant offered the decision of the JPO for two purposes. First, it was offered to prove the fact assertedly found by the JPO that the word otokoyama in Japanese refers to a type or class of sake. Second, it was offered as evidence supporting defendant's claim that plaintiff committed fraud on the trademark office in the prosecution of its application for registration. [cit]. The theory of

this offer was to show plaintiff's awareness that the word otokoyama was not an "arbitrary, fanciful term . . . [that] cannot be translated," as plaintiff represented to the trademark examiner. Both purposes are relevant to defendant's claims. It was error to exclude the JPO decision on grounds of relevance.

* * *

. . . The evidence defendant sought unsuccessfully to introduce at the preliminary injunction hearing was sufficient to undermine plaintiff's likelihood of success on the merits, but was not necessarily sufficient to carry the defendant's burden of proving that otokoyama is generic.[16] Whether otokoyama is generic in Japanese as defendant contends remains to be seen based on the evidence that will be presented at trial. We hold only that the improperly excluded evidence casts sufficient doubt on the validity of plaintiff's trademark, and on plaintiff's likelihood of success, to require that we vacate the preliminary injunction.

CONCLUSION

The preliminary injunction in plaintiff's favor is hereby vacated. The case is remanded for trial.

———————————

Orto Conserviera Cameranese Di Giacchetti Marino & C. v. Bioconserve, S.R.L., 49 U.S.P.Q.2d 2013 (S.D.N.Y. 1999). [The defendant had registered BELLA DI CERIGNOLA as its trademark for olives. The plaintiff sought cancellation of the mark on the ground that BELLA DI CERIGNOLA is a generic term used to describe a particular type of olive. The court concluded that the term was generic in both Italy and the United States; this was sufficient to resolve the case. Judge Martin took his analysis further, however.] Even if the Court were to conclude that BELLA DI CERIGNOLA had not yet become generic in this country, it would be reluctant to permit defendants to use it as a trademark for olives because to do so would preclude producers of Italian olives from selling them using the generic designation by which they are known in the country of origin. There are cases that state that, in determining whether a term used as a trademark is generic, the courts should consider only its use in this country and the fact that the term may be generic in another country is of no consequence. *Anheuser-Busch Inc. v. The Stroh Brewery Co.*, 750 F.2d 631, 642 (8th Cir.1984); *Abercrombie & Fitch v. Hunting World*, 537 F.2d 4, 9 (2d Cir. 1976); *Seiko Sporting Goods USA, Inc. v. Kabushiki Kaisha Hattori Tokeiten*, 545 F.Supp. 221, 226 (S.D.N.Y.1982). However, the facts of this case suggest that, as a general rule, such reasoning is too parochial for the modern world of international commerce. It does not strain the bounds of judicial notice to recognize that those who are interested in gourmet foods are often people who travel internationally or, at least, keep abreast of international developments in the food market. Thus an item of produce that is practically unknown in this country can become relatively popular within a brief period. To allow the first importer of such a product to use its generic designation in the country of origin as a trademark would give that importer a competitive advantage that the law of trademark should not allow. [cit].

In any event, even if the Court was persuaded that the term BELLA DI CERIGNOLA was not generic, it would at best be descriptive as applied to these olives. While the defendants contend that the mark is not descriptive, one need not be an Italian scholar to recognize that "Bella di Cerignola" means beauty of or from Cerignola. Thus, a consumer seeing a jar of BELLA DI CERIGNOLA olives would no doubt read the label as referring to the beautiful olives from Cerignola. Since BELLA DI CERIGNOLA is at best descriptive, defendants would only be entitled to preclude the plaintiffs from using it by showing that it had taken on a secondary meaning, so that consumers perceived it as identifying defendants' olives. While defendants have established that they use the words "Bella di Cerignola" in a stylized form as part of a label that serves as their trademark for a variety of products, they have not established that the typical consumer who sees the words "Bella di Cerignola" affixed to a tray of olives, or a competitor's jar, would assume that the olives originated with the defendants. To establish a valid trademark, defendants "must show that the primary significance of the term in the minds of the consuming public is not the product but the producer." *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 118 (1938). . . .

NOTES AND QUESTIONS

1. Is Judge Martin's approach in *Orto Conserviera Cameranese Di Giachetti Marino* consistent with the Second Circuit's opinion in *Otokoyama*? Is the inquiry as to whether a term is generic in Japanese (or Italian) the same as whether the term is generic in Japan (or Italy)? *Cf. V & V Food Prods., Inc. v. Cacique Cheese Co., Inc.*, 683 F. Supp. 662, 669-70 (N.D. Ill. 1988) (perception of term Chihauhau in Mexico irrelevant notwithstanding that Mexican-Americans were relevant purchasing public in the U.S.). How should a court determine whether a term is generic in a foreign language? *See* Enrique Bernat v. Guadalajara, Inc., __ F.3d ___ (5th Cir. 2000) (finding term "Chupa" for lollipops generic because it is a generic Spanish word for lollipop, but refusing to place dispositive weight upon literal dictionary definition). To what extent, in *Otokoyama* on remand, will the determination of the Japanese Patent Office assist the court in making a determination under U.S. law?

2. The doctrine of foreign equivalents is applied by U.S. courts not only in determining the distinctiveness of foreign terms used as marks, but also in assessing whether there is confusing similarity between two marks (one of which is a foreign term) under Section 2(d) or in an infringement proceeding under Sections 32 or 43(a) of the Lanham Act. *See, e.g.*, *Horn's Inc. v. Sanofi Beaute, Inc.*, 963 F. Supp. 318, 322-23 (S.D.N.Y. 1997) (finding mark HERE AND THERE not infringed by DECI DELA, which can translate as "here and there"). Should the doctrine be given a more or less expansive application depending upon the context in which it is used? Whose interests are being protected or furthered by considering the meaning of a foreign term when translated into English? *Cf. In re Le Sorbet, Inc.*, 228 U.S.P.Q. 27, 30-31 (T.T.A.B. 1985) (discussing international trade implications). What benefit does the doctrine achieve? Who or what was the court protecting in *Otokoyama*?

3. Some courts have declined to apply the doctrine and translate the foreign term where the foreign expression was one that even those knowledgeable in that language would not translate. *See, e.g.*, *Continental Nut Co. v. Le Cordon Bleu*, 494 F.2d 1395 (C.C.P.A. 1974) (CORDON BLEU not equivalent to BLUE RIBBON). The doctrine of foreign equivalents is, therefore, not an inflexible rule. Courts must make commonsense determinations as to whether the doctrine should be applied. For example, the term NIKE, a well-known mark for sports apparel, means "overcomers" in Greek. How should that affect your analysis of whether the sports apparel company can prevent a securities company from using the identical mark? What are the "commonsense" considerations that you would use in determining whether the application of the doctrine of foreign equivalents? If the plaintiff's claim rested on a dilution theory, how would the doctrine's application be affected? *Cf. Nike, Inc. v. Nike Securities*, 50 U.S.P.Q.2d 1202 (N.D. Ill. 1999).

4. Should the doctrine of foreign equivalents apply when the claimed mark is a combination of foreign and domestic terms? *See In re Johanna Farms, Inc.*, 8 U.S.P.Q.2d 1408 (T.T.A.B. 1988) (not applying doctrine and protecting mark because the commercial impression of the phrase LA YOGURT was changed by use of a combination of French and English); *French Transit, Ltd. v. Modern Coupon Sys., Inc.*, 818 F. Supp. 635 (S.D.N.Y. 1993). If there is alleged

confusion between two marks in different foreign languages, but with the same English meaning, should the doctrine be applied? *See Miguel Torres S.A. v. Casa Vinicola Gerardi Cesari S.R.L.*, 49 U.S.P.Q.2d 2018, 2020 (T.T.A.B. 1999) (opposition proceeding involving Spanish and Italian marks with similar English translations).

5. Should the doctrine be applied where consumers are generally unable to make the translation? That is to say, should the foreign language used be relevant to whether a court applies the doctrine? For example, while American consumers may understand French or Spanish, should we assume knowledge of languages less common in the U.S. (such as Swahili, or a dead language such as Latin)? *Cf. General Cigar Co. v. GDM, Inc.*, 988 F. Supp. 647, 660 (S.D.N.Y. 1997) (expressing doubt whether American cigar consumers would make an association between the mark COHIBA and the same word—meaning tobacco—in a language spoken by the indigenous population of the Dominican Republic). Should the alphabet used in the mark, or the ease of precise translation, be relevant? *See In re Oriental Daily News, Inc.*, 230 U.S.P.Q. 637, 638 (T.T.A.B. 1986) (finding "no reason why descriptive words represented by Chinese characters should be treated any differently from descriptive words in other contemporary languages"). Rather than assume American consumer understanding of a foreign language term, might it be better to assess the validity of such an assumption on a case by case basis? *Cf. Kundry S.A.'s Application*, 1998 E.T.M.R. 178, 185 (UK Trademarks Registry 1997) (refusing to consider possible Spanish pronunciation of term in determining similarity of marks because, inter alia, there was no evidence showing a general degree of familiarity of persons in the UK with the Spanish language). If so, would regional variations in language proficiency be relevant? (For example, knowledge of Spanish may be better in southern U.S. states than in northwestern states.).

6. In *Horn's Inc. v. Sanofi Beaute, Inc.*, 963 F. Supp. 318, 322-23 (S.D.N.Y. 1997), plaintiff alleged that its mark HERE AND THERE was infringed by defendant's use of DECI DELA, which can translate as "here and there". The court noted that although it would use the translated term to assess similarity of meaning, it would use the foreign term in assessing similarity of sight and sound, and found the marks not to be confusingly similar. In comparing the similarity of how marks sound, should it be assumed that consumers know how to pronounce foreign languages correctly? *See JouJou Designs Inc. v. JOJO Ligne Internationale, Inc.*, 821 F. Supp. 1347, 1354 (N.D. Cal. 1992) (pronunciation in French); *Miguel Torres S.A. v. Casa Vinicola Gerardi Cesari S.R.L.*, 49 U.S.P.Q.2d 2018, 2020 (T.T.A.B. 1999) (noting, where one mark was in Spanish and the conflicting mark was in Italian, that the marks may be pronounced in very similar manner given that Italian and Spanish are both Romance languages with common roots).

7. In what ways might it be appropriate to reconfigure the doctrine of foreign equivalents given the changes in contemporary society? *See* John T. Cross, *Language and the Law: The Special Role of Trademarks, Trade Names, and Other Trade Emblems*, 76 Neb. L. Rev. 95, 137-140 (1997) (arguing that current doctrine is too strict and suggesting presumption in favor of protecting foreign terms even where they are widely recognized translations of generic English terms). What effect will technological developments have on the

analysis of foreign language terms? Does globalization suggest the need for a stronger or weaker application of the doctrine?

8. Whatshappenin.com is an online entertainment guide that provides information about clubs, music, and bars (among other things) in different U.S. cities. It wishes to enjoin the use of the mark quepasa.com as an internet domain name for a similar service offered by a rival company. *See* Victoria Colliver, *Tongues Tangle in Web Site War*, S.F. EXAM. Oct. 13, 1999 at B1. Quepasa.com was launched one year after whatshappenin.com. Quepasa.com's website is primarily although not exclusively in the Spanish language. Should the rival's use of the quepasa mark be enjoined? (The plaintiff alleges that Que pasa" translates from Spanish as "what's happening." Would it matter that the literal translation of "what's happening" in Spanish is "que estapando"?) Is there any additional information about the respective sites that would help you decide? If the rival's website was Spanish-based, and was found at http://www.quepasa.es rather than at http://www.quepasa.com, would your analysis change? *Cf.* Avery Dennison v. Sumpton, 189 F.3d 868, 880-81 (9th Cir. 1999) (discussing relevance of different top level domain name to dilution analysis). The relationship between domain names and trademarks is considered in more detail in Chapter VII.

9. Many foreign countries apply doctrines not unlike the doctrine of foreign equivalents. *See, e.g.*, Judgment of Feb. 23, 1996, *Tribunal de Grande Instance de Paris*, noted at 86 Trademark Rep. 898, 900 (1996) (holding that a foreign term can be a trademark although court will consider whether the foreign term had become part of the language used in France and whether it would be understood, in translation, by the French public). Significant German case law has developed on the protectability of foreign (especially English) terms. Some excerpts from recent opinions follow.

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"Partner With the Best" Trade Mark Application, Case 30 W(pat.) 202/95, Federal Supreme Court (Jan. 27, 1997), 1998 E.T.M.R. 679. [Registration was sought in Germany of the mark PARTNER WITH THE BEST for use in connection with, inter alia "electronic and electrical appliances; components and parts; included in Class 9" and various specialized items of office and laboratory furniture. The German Patent Office initially rejected the application on the grounds of lack of distinctiveness as well as the need to keep the phrase freely available for general use (each of which were independent grounds for refusal of an application under German law). Ultimately, the Examiner based his decision solely on the lack of distinctiveness. The applicants filed an appeal. In the appeal, the applicants made particular reference to the fact that the applied-for mark had been registered in numerous territories—in particular English-speaking territories—which suggested, it was argued, that there was no need to keep the mark available for use by others. The applicants raised the following question on appeal: "can a string of words in a foreign language (in this instance English) be refused registration in Germany purely on the basis of lack of distinctiveness, when it is protected as a trade mark in the main economic territories of that foreign language' (in this instance the United Kingdom and the United States) and is thereby monopolised by the applicants?". The appeal was unsuccessful;

the Federal Supreme Court affirmed the Examiner's conclusion on distinctiveness.]

The public has no cause to see an adequately distinguishing indication of company in the English language statement. The use of English expressions in advertising has long been common . . . In fact, it may now almost be described as predominant.

This is in particular the case for the goods specified in this application, being either technical equipment itself or (specialist) furniture specifically intended for such equipment.

In the field of Class 9 goods, as for other electrical and electronic devices, the English language has become predominant. Certain expressions do not even have passable German equivalents (see "Das Streiflicht", a column in the *Siiddeutsche Zeitung* of January 7, 1997 called "Software"). Even in relation to goods which address a much wider portion of the public, such as textiles, the use of the English language is widespread. . . .

This trend has strengthened in recent years, in particular through access to the Internet which constantly opens up new sources. Specifically in this field, languages are being suppressed, since search commands may only be entered in English and one reaches many more people using English.

A search on the Internet for the complete text of the actual mark at issue here—that is "Partner with the best", produced the following results: in the newspaper *Die Welt* there were two instances; through the Alta Vista search engine there were approximately 800,000 documents; and the "Yahoo" search engine identified 833,500 documents—all of which contained the search words: 'partner" "with" "the" and "best".

. . .

Also, the indication from the applicants that the marks had been registered in other countries could not lead to a different result. In the decision *The Home Depot* (BIPMZ 1997, 26) the German Court considered that registrations overseas merely reduced the importance of keeping the mark available in the interest of the public, whose use of the mark overseas is already "blocked" by the registration. . . .

The application therefore lacks distinctiveness as it would be interpreted as a mere advertisement. . . . Whether, and to what extent, there exists a need to keep the mark available for general use over and above this therefore does not need to be decided. However, it appears from the searches that the string of words is in reality widely used in connection with products on the market, so that it certainly also falls within the definition of nonregistrability . . .

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Case 28 W (Pat.) 153/95 (Chinese Characters), Federal Patent Court, July 24, 1996 (Germany), reported at 29 I.I.C. 361 (1998)[17]

A sequence of Chinese characters . . . was filed as a trademark for the goods "meat, fish, poultry and game, and for preserved meat, fish, poultry and game," as well as for various class 42 services.

The . . . German Patent Office denied protection to the trademark for lack of distinctive character, holding that, as a recognizable sequence of oriental

characters, the mark merely had the effect for the German public [of an indication of geographical origin], without the uniqueness necessary to designate a particular business, particularly since its complex structures made it impossible to individualize the mark pictorially; hence the mark was not memorable for the public.

In its appeal against this decision, the applicant points out that, even according to the previous case law, oriental characters were not to be denied distinctive character as a general principle, which must apply all the more so under the new Trademark Act. Furthermore, the behavior of the public had changed in recent years as a result of China's involvement in the western business world, such that the dismissal of the present application, which moreover had a marked visual effect, amounted to a discrimination of the applicant, particularly in light of the German Patent Office's practice of registering trademarks in other scripts (*e.g.*, Cyrillic).

At the suggestion of this Court, the applicant submitted an expert opinion on the semantic content of the Chinese characters filed. According to the evidence of the court interpreter, the characters are pronounced "Quan Ju De" and are the name of a duck restaurant.

[The appeal is upheld.] This Court cannot find any obstacle to registration within the meaning of Sees. 37(l) and 8(2)(1) and (2) of the new Trademark Act . . . Neither is there a legitimate interest in free use of the Chinese characters for which registration is requested, nor do they lack distinctive character.

First of all, this Court finds that there is no doubt that the mark filed satisfies the (abstract) conditions required for registration as a trademark within the meaning of Sec.3 of the new Trademark Act, since it presents a complete, unified entity which, while containing a number of visual design elements, is ultimately comparable to elaborate ornaments or extravagantly designed labels, etc., whose entitlement to registration as a trademark has never been called into question despite their complex structure. Nor do the contested decisions reveal any such obstacles.

This Court does not share the views of the Patent Office on the lack of distinctive character. It is true that the contested decisions clearly follow the previous case law of the Federal Patent Court, according to which oriental characters lack the distinctive character required for a trademark since they can only be retained through an unreasonable degree of attentiveness or because the public interprets them merely as an indication of the oriental origins of the goods in question.

However, this view fails to take account of the changed legal and factual conditions. In the opinion of this Court, in particular a specific memorability, in the sense that the public would unambiguously identify and reproduce the trademark, cannot be required either with respect to the capability of registration as a trademark referred to above, or in the context of the distinctive character required by trademark law, particularly since such distinctiveness varies considerably from case to case . . . This means, however, that in the present case the finding of distinctive character cannot be made dependent on whether the trademark embodies an immediately recognizable semantic content and can be specified unambiguously, or on whether the observer can for instance note all the

component parts that comprise the characters in question. [cit]. On the contrary, the sole decisive factor must be whether, in conjunction with the products and services for which it is requested, it can be understood by the public as an indication of business origin. There is nothing in trademark law that imposes the conclusion reached by the German Patent Office that the case must be determined on the basis of the fact that most consumers, when confronted with the trademark in question in their daily transactions, can be expected only to perceive some oriental characters and hence to interpret them merely as an indication of geographical origin. Thus by virtue of Sec. 33(2) of the new Trademark Act, every application of a trademark for which a filing date exists is entitled to registration, and such entitlement cannot be negated by sweeping statements about the public's interpretation. In addition, according to Sec. 26(4) of the new Trademark Act, in the future the affixation of a trademark to goods intended exclusively for export will be sufficient for the trademark to be deemed to be used in Germany. The purpose of this provision, namely to protect goods destined exclusively for export, would not be met if characters used in such economic centers as Japan and China were excluded from registration in the German Trademark Register as a matter of principle. Such an approach would conflict not only with the fact that the People's Republic of China, for instance, has been a member of the Madrid Trademark Agreement since 1989, but also with the interests of the commercial circles in question in being able to use a German registration in order to obtain an [International Registration] trademark with validity for China for Chinese characters as part of their activities on this market. Nor, at least as far as concerns the intention of the Act, should the fact be ignored that Germany is bound by the Agreement on Trade-Related Aspects of Industrial Property (TRIPS Agreement), even though its provisions are not directly applicable in terms of creating rights for the individual.

Irrespective of these legal considerations, however, it can today no longer be assumed, given the developments in the world's economy and the continuous growth of cultural and touristic relationships with the countries of the Far East, that the German public, when it perceives Chinese characters in connection with products or services, only associates them with the concept of an indication of geographical origin. In trademark law terms, however, this means that without any additional substantiated findings, the application for a trademark for Chinese characters cannot be denied distinctive character, at least in cases where, as here, the mark consists of a small number of sufficiently characterizing features and hence appears thoroughly capable of influencing the memory of the public in question as the indicator of business origin.

Nor, finally is there any legitimate interest in the free use of the characters filed. According to the expert opinion submitted to the files, the characters have no coherent meaning in the sense of words, but simply transcribe as the sound of the applicant's company name. Thus with respect to the goods and services for which they are requested, these characters have no meaning whatsoever, and particularly not as descriptive terms.

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Ergopanel Trade Mark Application, Federal Patent Court, May 21, 1997 (Germany), 1997 E.T.M.R. 495

There exists the necessity to keep the applied-for ERGOPANEL mark free for general use under section 8(2)(2) of the Trade Marks Act, now to be applied under section 152, for the goods for which the opposed application has been specified, [namely, various electronic items].

As the term ERGOPANEL is not to be found in the dictionary, nor is there evidence of its use in trade, it may thus be assumed that it is a newly created hybrid word. However, even new words may be subject to the necessity to be kept available for general use where the meaning of the word is derived from a statement about the goods and where the fitting term may therefore serve as a description of the goods. This is the case in the present application.

The applied-for mark is clearly composed of the word "ergo" and the English word "panel" (meaning a control panel or console). The specified goods include items which would have such control consoles. This is also true of the 'graphic steering apparatus", for example a graphics board, and for the "speech producing apparatus" wherein text is audibly reproduced. Thus the term "panel" is apt to describe the nature of the named goods in the domestic language (German). This is not diminished by the fact that the word is English. The term "panel" may not be expected to be part of everyone's basic English vocabulary; however, it is to be found in numerous dictionaries—even those which are concise and cover a limited range of words.

In addition to this, the English language is widely the primary language in this field, used not only by the experts, but also in advertising, etc. In this technical field, it is to be assumed that the word "panel' would be understood as a description of the goods by a significant proportion of the trade (experts and consumers).

[The court reviewed various uses of the term "ergo" in advertising]. Taking this background into account, the applied-for term presents a descriptive reference which is commonly used in advertising and in language which conveys the sense of an "ergonomically shaped control panel" and/or "fitted with an ergonomically shaped control panel". The mark is therefore excluded from registration for the goods for the benefit of the applicants' competitors.

The alleged U.K. registration was not considered as no certified evidence of this registration was submitted. In general however, it can be noted that the partial harmonisation of the trade mark laws of the European Union Member States through the harmonisation directive of December 21, 1988 does not create any binding precedent between the decisions of the Patent and Trade Mark Offices or the courts of the Member States, even if it were only in the sense of an "indication". For, provided that the German trade mark laws incorporate the harmonisation guidelines, there can be a European convergence of national rules. These requirements were also met by the officials and courts responsible for the decision-making practices of the other E.U. Member States. The resulting effects of harmonisation cannot however themselves be synchronised by the partial harmonisation.

Just as the harmonisation directive may be utilised in order to ignore decisions in other E.U. States, so it can be raised against positive decisions to allow a registration.

In addition, a decision on the registrability of a mark in a national

examination procedure depends not only upon the harmonised law but also to a considerable extent upon the non-harmonised law (in particular as to procedural matters and requirements) regarding the evidence and assessment of domestic trading conditions. The characteristics of the trade may differ between States, despite the aim of creating a common market.

For this reason too, it will also in future be impossible to avoid discrepancies between the decisions of different E.U. Member States. This is also the view of the European legislature.

According to Article 7(2) of the Community Trade Mark Regulation, in line with Article 38(1), an application is to be refused where there exist obstacles to its registration under Article 3(1) in any part of the E.U., according to Article 7(1). The position taken by the applicant would thus mean that an applicant could obtain—through the alleged harmonisation of decisions—a bundle of national rights which would be denied by the legislature at the Community Trade Mark level.

An extension of the effects of the harmonisation guidelines toward some precursory or indicatory decisions by the Patent or Trade Mark Offices and courts of other E.U. Member States not only ignores the boundary between a Community-wide right to protection and national rights based (at least partly) upon harmonised law; it is also contrary to the expressed laws of the Community Trade Mark.

Furthermore, it is also not clear as to the basis for the implicit assumption of the applicant, that the harmonised rules by the other Patent and Trade Mark Offices of the E.U. would be better put into practice than through the domestic offices and court. [cit].

Rather, it cannot be wrong to say that the wording of the harmonisation directive in relation to the absolute grounds for refusal of registration of lack of ability to distinguish and the need to keep a mark available for general use (Article 3(1)(b) and (c) of the guideline) is visibly influenced by the ruling of Article 6 *quinquies* (B)(2) of the Paris Convention and of the earlier section 4(2)(1) of the former Trade Mark law. . . .

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NOTES AND QUESTIONS

1. Is the incorporation of technological developments into trademark analysis (such as seen in the remarks of the German Federal Supreme Court in *Partner With the Best*) an appropriate one? In what ways does the court's reliance upon internet use alter traditional assumptions about trademark law? *Compare Tele-Direct (Publications) v. Canadian Business Online*, Federal Court of Canada (Sept. 17, 1997), reported at EIPR N-33 (Mar. 1998) (rejecting reliance); *cf. General Cigar Co. v. GDM, Inc.*, 988 F. Supp. 647, 650 n.6 (S.D.N.Y. 1997) (rejecting reliance). In support of the observations of the *Partner With the Best* court, a recent report published by the United Nations noted that 80% of web sites are written in English, although less than 10% of the world's population speak English. *See* Human Development Report 1999 at 6 (Oxford Univ. Press. 1999).

2. Several German courts have (like the court in *Ergopanel*) been

persuaded to translate the English term to German, and thus to afford lesser protection, because the mark is used in a field where English is commonly used. *See, e.g.*, Case 26 W 90/95, Federal Patent Court, July 10, 1996 (Germany), noted at 19 Eur. Intell. Prop. Rev. D-209 (1997) (rejecting mark "FOR YOU" for tobacco products and noting use of English in tobacco advertising); Case 26 W (Pat.) 130/95, Federal Patent Court, Feb. 19, 1997 (Germany), 1998 E.T.M.R. 386, 388 (YES for tobacco products); see also Case 24 W (Pat.) 229/91, Federal Patent Court, Apr. 13, 1993 (Germany), noted at 84 Trademark Rep. 903, 904 (1994) (Annual Review) (noting that because English is the technical language in the computer business English terms cannot be considered foreign term and thus rejecting registration of COMPUTER ASSOCIATES for software).

3. In *The Home Depot*, the German Federal Supreme Court had (as the *Partner With the Best* court suggests) appeared to offer broad protection to marks that were comprised of several foreign language terms. *See* Case I ZB 10/94, *The Home Depot*, Federal Supreme Court, June 7, 1996 (Germany), reported at 29 I.I.C. 459 (accepting registration of THE HOME DEPOT for home and garden products). There, the Court rejected the lower court's dissection of applicant's mark into three separate terms, each of which was (when understood in German) descriptive. *See also* Case 28 W (Pat.) 272/96, Federal Patent Court (Germany), noted at, 11 World Intell. Prop. Rep. 191 (1997) (following *Home Depot* and accepting registration of SELECTSHIFT for gears for motor vehicles). Six months later, in *Partner with the Best*, the Court commented that it had taken the appeal because in recent decisions (such as *The Home Depot*) the Court appeared to have endorsed the view that "foreign language expressions are in principle capable of distinguishing and are not required to be kept available for general use, at least when the trade mark protection has already been granted overseas." As the *Partner With the Best* court noted, "while such indications by foreign registrations have constantly been rejected by the Federal Supreme Court it appears that [we] wish to afford foreign registrations greater weight." Accordingly, the Court sought to clarify the position. In so doing, it suggested that it was a "fantasy that the German Patent Office could take into account that legal evaluation by other countries upon its own examination (of up to 50,000 applications a year)." Among the difficulties identified by the Court were that the Lanham Act allows registration on the basis of acquired distinctiveness, but the German court could not tell whether registration followed application of Section 2(f) of the Lanham Act. Thus, although *The Home Depot* represented some liberalization insofar as it recognized that a foreign registration indicates a lack of a legitimate interest in free use of the foreign term in Germany, it should not be taken as a wholesale invitation to register foreign term marks in Germany. *See* Case I ZB 7/95, Federal Supreme Court, June 19, 1997 (Germany), noted at 12 World Intell. Prop. Rep. 80 (1998) (rejecting registration for ACTIVE LINE for leather goods). Why would the basis for the foreign registration be relevant to the German Trademark Office?

4. As the *Ergopanel* court suggested, despite substantive harmonization, the registration of a mark in one member state of the EU will not compel another member state to grant a registration in its jurisdiction. *See Warnaco Inc.'s Application*, 1997 E.T.M.R. 505, 507 (UK Trademarks Registry, July 14, 1997). The reluctance of examiners to consider registration in other jurisdictions extends

also to the EU Community Trademark Office, which does not feel bound by national registrations granted by offices of countries within the EU. *See, e.g.*, *SOS Arana Alimentacion's Application*, O.H.I.M., First Board of Appeal, R 54/1998-1 (June 16, 1998) (EU), *noted at* 1998 E.T.M.R. 708; *see also New Zealand Lotteries Commission's Application*, O.H.I.M., Third Board of Appeal, Case R 37/1998-3/0 (July 13, 1998) (EU), reported at 1998 E.T.M.R. 569 (prior non-EU registrations may be taken into account by examiner but not binding). This issue is discussed more fully in Chapter V.

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Eila Homer v. Homer's Bar, Supreme Court of Finland (Oct. 6, 1997), reported at 20 Eur. Intell. Prop. Rev. N-58 (1998). The Finnish Patent Office granted a registration for the trade name HOMER'S BAR. The applicant owned two restaurants that were decorated in "Simpsons' style" and thus wished to take a trade name based upon the cartoon character Homer Simpson. Ms. Eila Homer sought to have the trade names canceled on the ground that she had not consented to the use of her surname. Under Section 10(2) of the Finnish Law on Trade Names, a trade name cannot be composed of anything that is likely to give the impression of being the name or likeness of another person. In this regard, it is not unlike the bar to registration found in section 2(e)(4) of the Lanham Act, which bars the registration of marks (absent secondary meaning) that are primarily merely a surname. The Finnish Supreme Court held that the registration should be canceled because Homer was a surname in Finland, and it was irrelevant that the name might be used as a forename elsewhere. According to the court, the cartoon character Homer Simpson had not become so well-known in Finland that the name HOMER could be connected to the cartoon character in general and thus be understood as other than a person's surname. Should the Finnish court have considered how the name might be used (and understood) elsewhere? If not, why not?

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b. Global Marketing and Trademark Law

Trademark law is a law of the marketplace, a *lex mercatoria*. As the most dominant branch of the law of unfair competition, it is a law that purports to regulate competitive conduct. Like all regulatory instruments, it must mirror, and be tailored to, the environment it regulates. The marketplace is changing. Determining what differentiates the current marketplace from historical models, whether viewed in purely commercial terms or with a broader perspective, will help us set the priorities for international trademark law and policy.

Therefore, what are the essential characteristics of the modern marketplace (and of contemporary society)? How is global marketing—the buzz phrase for the new millennium—different from international marketing? In what ways has the opportunity to market a product internationally affected corporate marketing strategies? In what ways has corporate reaction to that opportunity affected consumers and, more broadly, society? Are these changes desirable? Why do many companies view global marketing as a competitive imperative? In what ways has the internet affected the globalization of product manufacture and

marketing? If a corporation decides to use the internet as part of a marketing strategy, what implications arise for its brand policies and management of its trademark portfolio? How will this new marketplace affect the type of trademarks that companies adopt? Consider the following excerpts.

Peter Galuszka, Ellen Neuborne, and Wendy Zellner, P&G's Hottest New Product: P&G, BUSINESS WEEK Oct. 5, 1998 at 92.

. . . Procter & Gamble is a company in a bind. Two years ago, its executives boldly declared that the consumer-products giant would double its net sales by 2006, to $70 billion. P&G has consistently missed its growth targets ever since. . . The behemoth so used to leading the pack is looking lost.

So P&G, a company notorious for secrecy, has set itself on a remarkably outward-looking self-improvement plan. Breaking from decades of tradition, it has sought external advice. . . .

In preparation for the task, [CEO John] Pepper and other top execs have been traversing the country, visiting the CEOs of a dozen major companies, including Kellogg Co. and 3M, in search of advice. Pepper went to Jack Welch at General Electric Co. to learn how the company streamlined global marketing. He persuaded Hewlett-Packard Co. CEO Lewis E. Platt to share enough secrets about new-product development to make a 30-minute instructional video for P&G staffers. . .

The result of this unprecedented road trip is Organization 2005, a shuffling of the P&G hierarchy and a new product-development process designed to speed innovative offerings to the global market. The old bureaucracy, based on geography, will be reshaped into seven global business units organized by category, such as baby care, beauty care, and fabric-and-home care. The global business units will develop and sell products on a worldwide basis, erasing the old system that let Procter's country managers rule as colonial governors, setting prices and handling products as they saw fit.

This new global vision has already had an accidental test run. Last year, P&G introduced an extension of its Pantene shampoo line. The ad campaign for the product was almost entirely visual, with images of beautiful women and their lustrous hair, and had a very limited script. That meant the campaign was easily translated and shipped to P&G markets around the world without the usual months of testing and tinkering. The result: P&G was able to introduce the brand extension in 14 countries in six months, vs. the two years it took to get the original shampoo into stores abroad. . . .

P&G didn't come to this global focus entirely on its own. Its biggest chain-store customers, such as Wal-Mart Stores Inc. and French-owned Carrefour, have been agitating for just such a program to mirror their own global expansion. It has been Topic A at retail conventions for months, says Robin Lanier, senior vice-president for industry affairs at the International Mass Retail Assn. While P&G craves an international image for its products, retailers want something more tangible: a global price. As it stands, prices are negotiable on a country or regional basis. What an international retailer pays for Crest in the U.S. could be considerably less than what it costs the chain in Europe or Latin America. A consistent global price gives big chains more power to plan

efficiently and save money. Wal-Mart Chief Executive David D. Glass describes his company's goal as "global sourcing," which includes worldwide relationships on pricing and distribution. Moving P&G products from regional to global management is "pointing somewhat in that direction," Glass says.

In addition to marketing and pricing, global business units will supervise new-product development. P&G will move away from its long-used "sequential" method, which tested products first in midsize U.S. cities and then gradually rolled them out to the world. An example: Swiffer, a new disposable mop designed by P&G, is being tested simultaneously in Cedar Rapids, Iowa; Pittsfield, Mass.; and Sens, France, in hopes of sculpting a globally popular product right out of the box.

Barbara Wickens, Getting The Message
Maclean's, February 1, 1993, at 54.

. . . [U]ntil 1988, Gillette marketed its products country by country. But now . . . Gillette's top-level executives in Boston make all major strategic decisions, while company executives in each area execute that strategy. 'As a multinational marketer, we constrained ourselves to the boundaries, cultures and traditions of the individual nations," said [Donald McDuff, President of Gillette Canada.] 'As a global marketer, we strive to look for commonalities, versus looking for differences.' Indeed, one TV ad that Gillette used in 17 countries simply showed a series of smiling, clean shaven men in a variety of everyday situations.

Mixed-up Media Messages,
U.S. News & World Rep., Dec. 9, 1991 at 61

The United States and the Soviet Union may be laying down their big guns for the 1990s. Not so the superpowers of soft drinks. Coca-Cola and PepsiCo are escalating the war for market supremacy both at home and abroad. In a shot that will soon be heard—and seen—around the world, Coke will air its first truly global ads next month, an effort that will beam the same message into living rooms from Milan to Milwaukee.

With the U.S. soft-drink market expanding a measly 2 to 3 percent annually—and some international markets growing five times as fast—it's not hard to see where the future lies. Coke saw it long ago and now garners 80 percent of its operating profits overseas. Although Pepsi is pouring $ 1 billion into foreign operations over the next two years, international soft-drink sales currently constitute just 5 percent of its annual earnings. Moreover, it stands little hope of catching Coke around the world because it is outsold by a 4-to-1 margin abroad.

. . .

Coca-Cola was once on the cutting edge of advertising creativity. It taught the world to sing in perfect harmony, and it defined the real thing—often in unforgettable 30-second electronic sonnets. But in the 1980s the unthinkable happened, and the world's leading cola brand found itself grappling with Pepsi in the televised struggle for consumers' hearts, minds and money. . . .

The cola king is now poised to regain its creative crown. Last week, Coke aired two of its more than 20 new commercials for 1992 on network television. For the first time in its history, the company's ads have been conceived and executed with a global market in mind. And beginning next month, its commercials will be televised simultaneously in hundreds of countries around the world.

Instead of trying to be cool and hip like Pepsi, the new ads extol universal brotherhood and emphasize Coke's widespread global recognition. "We might have erred [in trying to be trendy]," says Coca-Cola's director of global marketing Peter Sealy. "So we've returned to the brand's enduring values." One commercial called "Sasha" features a young Polish boy recently adopted by an American couple. Unnerved upon meeting his new relatives for the first time, the shy youngster nonetheless lights up when he spies a can of Classic Coke.

. . .

By developing its ads for global consumption, Coca-Cola has acknowledged that it is targeting the world market, where it dominates Pepsi, rather than the United States, where it still heatedly competes with its rival. Over the past decade, Coke has made an aggressive push overseas, rapidly building up its foreign bottling network. Coke's four key brands now control 44 percent of the world soft-drink market, and strong international sales have helped the company's earnings grow at an annual rate of 19 percent over the last five years. Coke has set its sights in the right direction, according to most analysts. Despite a commanding overseas presence, the company's potential for international expansion remains enormous. In America, for example, each person over the age of 8 consumes 300 eight-ounce servings of soda a year; but outside the United States, the number drops precipitously, to just 43 eight-ounce servings annually.

The global risk? Coke's new communications strategy is not without risks. The company has long faced the dilemma of protecting its well-scrubbed all-American image while still appealing to trend conscious teens, a key cola-guzzling group. And, as in any global campaign, a broad-based advertising approach could miss where more- targeted, culture-specific commercials would hit. “Global advertising is often much too broad,” says Jack Trout, president of Trout & Ries, a marketing-strategy firm in Greenwich, Conn. “In an effort to have one global idea, it's hard to focus on key problems that emerge country by country.”

But Coke is confident that its message about brotherly love and brand loyalty will transcend local barriers. . . . Like so many global marketers, Coke is betting that what plays in America will play around the world as well.

John Quelch & Lisa Klein, the Internet and International Marketing
Sloan Management Review, March 1, 1996, at 60.

A major challenge for multinational corporations is the management of global brands and corporate name or logo identification. Consumers may be confused if a company and its subsidiaries have several Web sites, each communicating a different format, image, message and content. 3M, which has one site for its entire product line, has a focused corporate identity and firm control over the marketing actions of its divisions and subsidiaries. However,

many multinationals with one brand name have allowed local entities to develop sites ad hoc and now have several sites around the globe that require tighter coordination. . . . On the other hand, developing one site for each brand—while costly and limiting to cross-selling—is preferable when the brands have distinct markets and images. . . . Recognizing the importance of brand names, many multinational corporations are establishing single Web sites for each brand.

. . .

The Web promises to reinforce the trend toward English as the lingua franca of commerce. There are significant obstacles in translating Chinese and Japanese to the computer, especially the large number of local dialects. . . .

. . .

[And] cultural barriers remain. When setting up a traditional business operation in a foreign country, managers usually have numerous conversations with local partners and visit the country several times. With a virtual business, the need for such contacts is minimized, and cultural differences may not be as apparent. . . .

———————————————

LANGUAGE BARRIERS

Language differences can, occasionally, present impediments to global marketing. Consider the following well-known examples.

* The name Coca-Cola in China was first rendered as ke-kou-ke-la. Unfortunately, the Coke company did not discover until after thousands of signs had been printed that the phrase means "bite the wax tadpole" or "female horse stuffed with wax" depending on the dialect. Coke then researched 40,000 Chinese characters and found a phonetic equivalent, "ko-kou-ko-le," which can be loosely translated as "happiness in the mouth."
* In Taiwan, the translation of the Pepsi slogan "Come alive with the Pepsi generation" came out as "Pepsi will bring your ancestors back from the dead."
* Also in Chinese, the Kentucky Fried Chicken slogan "Finger-lickin' good" came out as "eat your fingers off."
* The American slogan for Salem cigarettes, "Salem—Feeling Free," got translated in the Japanese market into "When smoking Salem, you feel so refreshed that your mind seems to be free and empty."
* When General Motors introduced the Chevy Nova in South America, it was apparently unaware that "no va" means "it won't go." After the company figured out why it wasn't selling any cars, it renamed the car in its Spanish markets to the Caribe.
* Ford had a similar problem in Brazil when the Pinto flopped. The company found out that Pinto was Brazilian slang for "tiny male genitals." Ford pried all the nameplates off and substituted Corcel.
* Chicken man Frank Perdue's slogan, "It takes a tough man to make a tender chicken," got terribly mangled in another Spanish translation. A photo of Perdue with one of his birds appeared on billboards all over

Mexico with a caption that explained "It takes a hard man to make a chicken aroused."

QUESTION

What are (or should be) the consequences for legal systems and legal rules when cultural and commercial borders do not correspond to physical territories? *See* Richard Thompson Ford, *Beyond Borders: A Partial Response to Richard Briffault*, 48 STAN. L. REV. 1173, 1194 (1996) ("Borders are not inherently significant; they are significant because we attach significance to them."). If new borders are generated by product affinity, consumer attitudes and other socio-cultural phenomena, how should trademark law adapt? Should trademark law simply react to how these factors affect product development, distribution, and marketing, or should trademark law assume a more constitutive role? Should it seek to shape the new "borders"? If so, according to which values? Should it seek to facilitate others in establishing those borders and patterns of behavior? If so, whom should it facilitate?

c. The Lawmaking Process

Robert Denicola, SOME THOUGHTS ON THE DYNAMICS OF FEDERAL TRADEMARK LEGISLATION AND THE TRADEMARK DILUTION ACT OF 1995
59 Law & Contemp. Prob. 75, 80-83 (1996)

To be successful, trademark law must respond effectively to complex and sometimes inconsistent interests. Protection against infringement reduces the cost to consumers of acquiring reliable information about the source of a product and, hence, about its anticipated characteristics and quality. Protection also encourages investment in good will by ensuring trademark owners the opportunity to capture the rewards of a favorable reputation. But trademark law must also be responsive to the public interest in competition. Excessive protection can inhibit the communication of useful information by other sellers in the marketplace, and rights in packaging and product features can deprive competitors of access to elements crucial to effective competition. As trade symbols enter the general vocabulary, the law must also take account of the constitutional protection afforded noncommercial speech. These latter interests—the interests weighing against protection—are more likely to be represented effectively in common law adjudication than in the legislative process.

In trademark litigation, one party or the other will typically find it expedient to cloak itself tightly in the public interest. However, an adversarial process forces attention on pros and cons of such interests. The judiciary may systematically err in one direction or another, but usually not for lack of exposure to the real or imagined interests at issue.

The legislative process is more problematic. Owners of well-known trademarks are generally well-off and well-organized. They are important constituents in every political district, and their lobbying capabilities are

impressive. Their chief trade organization, the United States (now International) Trademark Association, was single-handedly responsible for the 1988 Trademark Revision Act. On the other hand, small market entrants looking for a leg up, manufacturers specializing in knock-offs, supermarket shoppers, and parodists (let alone t-shirt bootleggers) are not, as a general matter, well represented in the legislative process.[18] At best, they are left in the unenviable position of relying on testimony by public-spirited academic economists, or even law professors. This imbalance is troubling, whether we view the legislative process as a rational balancing of interests in furtherance of the general welfare or as a market in legislation.[19] Consideration of deceptive advertising issues under the Lanham Act is not hobbled by the imbalance in representation that plagues trademark issues. Large companies can as easily find themselves on one side of advertising complaints as on the other, and here the media is also a consistent player in the legislative process. From this perspective, a legislative strategy built on the codification of common law trademark principles is appealing—an intuition that the Lanham Act has generally heeded for fifty years. Unfortunately, this welcome conservatism, overwhelmed by an increasing fixation on international markets, may be ending.

Attention to the international dimension of intellectual property law is altogether prudent, to a point. For trademarks, the Paris Convention has long been the principal international treaty. Members, including the United States, promise national treatment for citizens of other member states and also agree to maintain at least a specified minimum level of trademark protection. More recently, there have been moves to harmonize trademark registration procedures (the Trademark Law Treaty) and to create a central application system for foreign registrations (the Madrid Protocol). In addition, the recent NAFTA and GATT trade agreements both produced modest changes to the federal trademark statute. The difficulty lies, however, not so much in statutory amendments implementing formal treaty obligations, but in impassioned pleas for ever-increasing protection rationalized by assertions about foreign revenues and trade balances.

There are trade-based arguments for increased domestic intellectual property protection suitable for every occasion. When the level of intellectual property protection in a foreign country is higher than in the United States, American works marketed in that country are sometimes limited on a reciprocity rationale to the lower level of protection available here. Thus, the argument is straightforward: Raise the level of protection for works at home, and Americans will suddenly earn billions more through expanded rights abroad.

. . .

Perhaps surprisingly, trade-based arguments are popular even when the domestic law of the United States provides the same or greater protection than foreign law. Enactment of increased domestic protection, it is said, shows our good faith and strengthens the hand of our negotiators pressing for greater protection of American works abroad. This holier-than-thou attitude seems nothing short of miraculous to those who remember the American position prior to the 1980s. For decades, the United States showed little embarrassment in preaching the virtues of strong intellectual property protection abroad while lingering with the sinners outside the Berne Convention, which serves as the chief international agreement on copyright.

Regardless of the relative levels of domestic and foreign protection, the

lure of increased revenues from abroad creates unremitting pressure to expand the scope of intellectual property protection at home. The Lanham Act is not immune to these arguments. They may well have tipped the balance in the case of the recent dilution amendment.

Marshall Leaffer, PROTECTING UNITED STATES INTELLECTUAL PROPERTY ABROAD: TOWARD A NEW MULTILATERALISM*
76 Iowa L. Rev. 273, 281-285 (1991)

The inadequate protection of intellectual property in developing countries can be viewed at two levels: the meager or nonexistent governmental enforcement of the law and the deficient coverage of intellectual property in the law itself. . .

A lax attitude in protecting intellectual property offers, at least in the short run, attractive benefits for pirates and consuming nations. Pirates of intellectual property enjoy lower production costs and are in a better position than legitimate producers to satisfy demands in developing countries. Pirates can do so because they merely copy products rather than develop their own and pay no royalties to the owner or creator. By copying only successful products, the pirate avoids the risk of market failure.

Barring effective regulation, the piracy of intellectual property pays off because it involves little risk and provides a healthy return on investment. Pirates enrich themselves and, in the short run, the countries in which they operate. Through piracy, developing countries can procure needed goods and services at little cost, while industries that specialize in producing counterfeit goods employ thousands of workers. When compared to these tangible gains, the threat that investment from Western countries might be withdrawn is secondary to immediate development needs.

In Third World countries, the piracy of intellectual property is justified by an ideology of development. Ready access to intellectual property is viewed as important to development, whereas the enforcement of intellectual property law is considered a burden on development. Thus, developing countries resist allocating scarce government resources to the enforcement of intellectual property rights.[20] As with the importation of capital, the importation of intellectual property often is viewed as a tool to dominate and exploit the economic potential of the importing countries. Paying for imports or making royalty payments imposes economic burdens and fosters a negative balance of trade.

In addition to this ideology, developing countries provide weak or nonexistent protection for, perhaps, a more basic reason. Intellectual property is simply too new of a concept to have developed a tradition of legal protection. Unlike Western countries, developing countries have few strong lobbies of inventors, authors, or companies that benefit from strong intellectual property laws.

. . .

Nonetheless, one can perceive a change in perspective. The origin of this change can be traced to both local firms and consumers, themselves victimized by unrestrained piracy in two ways. First, some local companies are owners of

indigenously developed intellectual property and suffer along with Western companies from inadequate legal protection. Piracy deprives these local businesses of sales and the ability to provide employment, and it discourages local companies from engaging in their own research and development. Second, absent adequate protection, Western firms will less readily transfer technology to local companies. Such direct foreign investment is vital to development because it disseminates state-of-the-art technology into the economy.

Consumers in developing countries also are directly victimized by counterfeit goods that threaten the public health and welfare in these countries. These inferior and sometimes dangerous products are sold widely to Third World consumers, who are vulnerable because of lax government enforcement.

. . .

Virtually every major producer of brand name clothing, shoes, jewelry, agricultural chemicals, and pharmaceuticals has been victimized by organized piracy and inadequate protection under trademark law in various Third World countries. In many of those markets, trademarked goods are counterfeited overtly. Many of these counterfeit goods make their way into the United States and other foreign markets.

Some developing countries have displayed hostility toward trademark protection in their substantive law. This attitude is nurtured by a fear that foreign licensors of trademarks exploit both local businesses and vulnerable consumers. Foreign licensors are perceived as having superior bargaining power, permitting them to impose terms unfavorable to the local licensee. In addition to potentially onerous terms in the licensing contract, local authorities believe that the increased use of trademarks will become an insurmountable obstacle to achieving economic self-sufficiency. According to this theory, the public's dependence on products identified by foreign trademarks makes it difficult for local producers to establish recognition for their own goods. This position is supported by the United Nations Conference on Trade and Development ("UNCTAD").[21]

Some claim that consumers in developing countries are exploited by entrenched brand names. They argue that the foreign trademarks encourage irrational preferences among vulnerable, largely illiterate consumers in the developing countries. The foreign trademark functions as an insidious vehicle for persuasive advertising, which modifies healthy consumption patterns.

A proposed Mexican law provides a good example of an attempt to curtail the effect of foreign trademarks. In 1976, Mexico passed a law that required the local linking of trademarks. The Mexican "linking law," which has never gone into effect (due in part to foreign outcry), would have forced the use of foreign trademarks in connection with domestic trademarks. It mandated that all foreign trademarks used in connection with goods produced in Mexico would have to be associated with a Mexican mark. The linking law constituted a form of trademark expropriation, allowing the local licensee to enjoy a free ride on the reputation and goodwill embodied in the foreign mark. By this means, the local licensee hoped that the public would come to associate the particular goods involved with the licensee's trademark.[22] Thus, if the license were terminated, the local licensee would enjoy an autonomous goodwill acquired during the period of dual use. Although this postlicense goodwill could result in a degree of public deception, Mexico was willing to pay this price to subsidize local industry

and to accept the risk that foreign trademark owners would hesitate in licensing their products to Mexican firms.

Linking laws are not the only practice hostile to trademark licensors. Other examples of the antitrademark attitude are found in countries that prohibit the importation of certain categories of trademark goods such as pharmaceutical products. In addition, some countries have attempted confiscation of foreign trademarks. Other laws have forced the trademark owner to manufacture the product on which the mark is affixed in the local country.

NOTES AND QUESTIONS

1. The particular concerns of developing countries with respect to the enforcement of trademark rights has received significant attention in the scholarly literature. *See, e.g.,* William H. Ball Jr., *Attitudes of Developing Countries to Trademarks*, 74 Trademark Reporter 160 (1984); W.R. Cornish and Jennifer Phillips, *The Economic Function of Trade marks: An Analysis With Special Reference to Developing Countries*, 13 I.I.C. 41 (1982); Monique Gabay, *The Role of Trademarks in Consumer Protection and Development in Developing Countries*, 3 Indus. Prop. 102 (1981); Peter O'Brien, *The International Trademark System and the Developing Countries*, 19 IDEA 89 (1978).

2. Professor Keith Aoki has written that "the colonization of the Nation-state by the private corporate sovereigns is at hand. . . . Western media images are transforming the world and constructing a hegemonic world culture modeled on the rampant consumerism of the United States. 'Advertising and media images exert powerful psychological pressures to seek a better, more 'civilized' life, based on the urban, Western consumerist model. Individual and cultural self-esteem are eroded by the advertising stereotypes of happy, blond, blue-eyed, clean Western consumers.'" Keith Aoki, *How the World Dreams Itself to Be American: Reflections on the Relationship Between the Expanding Scope of Trademark Protection and Free Speech Norms*, 17 Loy. L.A. Ent. L.J. 523, 525 (1997). What role, if any, should trademark law play in resisting (or implementing) such cultural models? Can it have a significant effect in one direction or the other? Are broad-based adoption of the values of the developed world more likely to occur with effective trademark protection or without such protection?

3. Would you expect parallels between the positions being staked out in domestic debates regarding the content of trademark law and those reflected at the international bargaining table? How might the dialogue differ, and what consequences should that have for the way in which we make trademark law domestically and internationally?

2. INTERNATIONAL AGREEMENTS CONCERNING TRADEMARKS

a. Types of Multilateral Trademark Agreements

In this Chapter, we will discuss a range of international trademark agreements. These agreements derogate in different ways from the model of discrete national, territorial forms of trademark protection; they contain

provisions that represent varying degrees of internationalization. The principal mechanisms included within these agreements can be roughly grouped as follows:

1. *National Treatment.* National treatment obligations require that a state provide nationals of other countries the same trademark protection as it would its own citizens. As we have seen above in discussing patents and copyright, this principle was the foundation of the Great Conventions of the late nineteenth century, namely the Paris Convention and the Berne Convention.

2. *Multinational Protection Facilitators*. These represent different means by which, without moving significantly from the country-by-country approach to the acquisition of rights, member states facilitate the procurement of national trademark registrations in multiple countries. These provisions are intended to reduce the transaction costs and time-sensitive vulnerabilities engendered by serial (although ideally simultaneous) national trademark filings. They do not minimize differences between different national trademarks laws; rather, they attempt to minimize the costs and consequences of those differences.

These facilitation mechanisms take many different forms that depart from the sovereign territorial model in more or less revolutionary respects; they rely to varying degrees upon new institutional or administrative constructs, as well as on reform of national trademark law. The primary such vehicles are as follows:

> *Mandatory Acceptance of Serial Applications.* These provisions require member states to register certain marks previously registered in other member states of the relevant union, subject only to enumerated exceptions.
> *Priority Rights.* Priority provisions require member states to accord priority of rights in one country based upon the date of registration in another.
> *Procedural Harmonization*. Procedural harmonization takes the form of standardizing national registration procedures, classification procedures and maintenance formalities, all with the goal of reducing transaction costs incurred by virtue of adherence to a system of separate national filings.
> *Centralized Filing Systems*. Centralized filing systems involve the establishment of international institutional structures and mechanisms that facilitate the acquisition of rights, again on a multinational basis, yet ultimately resulting in ownership of various national trademark registrations.

3. *Substantive Harmonization*. Substantive harmonization consists of multinational agreement on substantive standards and principles of trademark protection that are then implemented in domestic national laws. Harmonization is ostensibly an attempt to minimize the differences that exist among national trademark laws. This form of harmonization has (at the global level) thus far primarily involved agreement upon substantive *minimum* levels of protection. More tightly-defined harmonization is, however, occurring in regional contexts

such as the EU. And there is now debate in international intellectual property circles regarding the scope and nature of the harmonization process.

4. *Unitary Supranational Protection*. The grant of unitary, supranational rights throughout an economic region comprised of several nations is in the vanguard of a movement beyond multinational protection and toward the substantial elimination of territorial rights (or the establishment of rights throughout larger territorial areas). This concept may potentially take many forms, depending upon the scope of the rights and the institutional structures—the nature of the registering authority, and the centralized or developed nature of the enforcement and judicial authorities—that grant, administer and interpret the substantive rights.

PRELIMINARY QUESTIONS

As you read the provisions of the main multilateral agreements contained in this Chapter, consider whether (and to what extent) the quickening pace of globalization requires further retreat from the principle of territoriality and national sovereignty. Before we review the primary agreements, however, consider the following preliminary questions—we will revisit these issues, and you may perhaps reconsider your initial responses, throughout this Chapter.

Is a universal or supranational trademark law an utopian dream? Is it workable? If so, would it be desirable? What institutional mechanisms must accompany any such effort? As an alternative to territoriality, on the one hand, and supranationality (or universality) on the other, is regionality a concept that is either feasible or attractive? What are its advantages and disadvantages in comparison with territoriality or universality? Is it more consistent with the current political and economic climate? Would it merely be a transitional phase to universality, or an long-term governing concept? Who should be developing the principles of international trademark law? Should each development await the convention of a Diplomatic Conference or should we invest particular specialized bodies with authority to reflect more dynamic changes? *Cf.* W.R. Cornish, *Genevan Bootstraps*, 19 Eur. Intell. Prop. Rev. 336 (1997) (commenting on role of WIPO).

b. Surveying the Landscape

The advent of an international marketplace precipitated the first major multilateral international industrial property convention addressing trademarks and unfair competition, the Paris Convention of 1883. The Paris Convention did not, however, disrupt the prevailing notion of separate, sovereign national laws. Trademark rights and laws remained national in nature, even if those laws were influenced by relatively low-level international obligations. And, in this, trademark law corresponded with the marketplace. Products may have been sold in different national markets, but each was viewed as a new and separate trading area with new and separate issues of production and marketing.

A global marketplace is quite different from an international marketplace. Just as the international marketplace brought forth the Paris Convention, the demands of the late twentieth century mercantile environment

delivered the TRIPS Agreement. In this section, we devote principal attention to the provisions found in these two agreements. They represent the major chronological (and, as we shall see, perhaps conceptual) bookends of public international trademark law. But, in addition, because the TRIPS Agreement incorporates by reference the obligations of the Paris Convention, they have also become intertwined with each other; their blended corpus thus contains most of the substantive obligations of international trademark law.

Before turning to consider the Paris Convention and TRIPS in detail, however, we will first briefly introduce a series of other international agreements that both complete the landscape of international trademark law and help to frame and explain the development of TRIPS. Finally in this Chapter, after an in-depth analysis of the Paris Convention and TRIPS, we will discuss regional multilateral agreements (principally, NAFTA and developments in the E.U.) that increasingly influence the shape of international trademark law, as well as one significant treaty concluded since TRIPS (namely, the Trademark Law Treaty). We deal separately with those agreements that solely establish mechanisms for the multinational acquisition of trademark rights (principally, the Madrid Agreement, the Madrid Protocol, and the European Community Trademark Regulation) in Chapter V.

Harriet R. Freeman, RESHAPING PROTECTION IN TODAY'S GLOBAL VILLAGE: LOOKING BEYOND GATT'S URUGUAY ROUND TOWARD GLOBAL TRADEMARK HARMONIZATION AND CENTRALIZATION

1 ILSA J. Int'l & Comp. L. 67, 72-95 (1995)

This section delineates, in historical order, the principal international agreements which contain trademark rights and obligations. . . .

A. Paris Convention for the Protection of Industrial Property of 1883, as revised and amended (Paris Convention)

. . . The Paris Convention provides trademark protection based on national treatment, priority rights, and registration. . . . [It] prohibits any signatory from requiring domicile or establishment in its country to obtain trademark protection. National treatment for trademark protection existed prior to the Paris Convention and has continued as the basis for most international agreements offering trademark protection. The Paris Convention has been criticized because of its use of national treatment which allows a country to avoid providing trademark protection for foreigners if it does not provide trademark protection for its citizens.

. . . The domestic laws of each country determine the conditions for the filing and registration of a trademark. The Paris Convention does not provide for centralized filing or registration. Thus, a trademark owner must file and register in each country where protection is desired unless another agreement exists which provides for centralization of filing and registration. [The Paris Convention also sets some minimum standards for national trademark laws in Union countries. The Paris Convention is discussed in more detail below. *See*

Chapter IV.D.2b.]

B. Madrid Agreement Concerning the International Registration of Marks of 1891, as revised and amended (Madrid Agreement)

In 1891, some of the Paris Union countries established the Madrid Agreement to create a uniform system for the international filing and registration of trademarks. The Madrid Agreement allows its member countries to "secure protection [in all Madrid Union countries] for their [trademarks], registered in the country of origin, by filing the said [trademarks] at the International Bureau . . ., through the intermediary of the Office of the said country of origin.". . . Although general support existed in the United States for a centralized trademark filing and registration system, the United States did not join the Madrid Agreement. [The Madrid Agreement is considered separately in Chapter V, *infra*].

. . .

C. Pan American Convention of 1929, as revised, including the General Inter-American Convention for the Protection of Trademarks (Pan American Convention)

The Pan American Convention of 1929, as revised, consists of two separate parts: a [General] Convention for Trade Mark and Commercial Protection, and a Protocol on Inter-American Registration of Trade Marks. . . . Although the Convention provides for national treatment and a centralized filing and registration system, it does not strengthen the Paris Convention nor the Madrid Agreement. . . .

Fourteen nations of the Western Hemisphere, including the United States, but not Canada, are parties to at least one of the conventions. The United States is a member of the Pan American Convention, but it renounced the Protocol in the mid-1940s. The Bureau administering the Convention, the Inter-American Trade Mark Bureau, was located in Havana, Cuba, but it has closed.

Compared to the Paris Convention, this Convention never acquired any significance. Now, with GATT 94 and other recent regional developments, this Convention becomes irrelevant. [Certain aspects of the Inter-American Convention are considered separately below at pages __-___ and in Chapter V].

D. Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks of 1957, as revised

The Nice Agreement constitutes an international trademark classification agreement . . . When registering a trademark, most countries require the applicant to describe the goods and services to be protected. However, such description may be problematic because trademark classification systems in various countries differ in the particularity of their description requirements. Thus, the International Bureau [of WIPO] established the International Classification system, creating specific descriptive classes for filing an

international application. If, at any time, the International Classification system needs to be changed or revised, the Committee of Experts may make such changes or revisions.

. . . The Nice Agreement is procedural in nature; it does not address any substantive trademark issues. No rights or obligations flow from any classification designation in the Nice Agreement. However, it does facilitate trademark searching which may help to prevent trademark confusion and infringement.

E. Convention Establishing the World Intellectual Property Organization of 1967, as revised (WIPO)

. . . Currently, the WIPO administers seventeen multilateral and regional agreements, such as the Paris Convention, the Madrid Agreement, and the Nice Agreement. Within its committee structure [since replaced in 1998 by Standing Committees*], two groups focus[ed] on international trademark law: the Permanent Committee on Industrial Property Information ad hoc Working Group on Trademark Information (PCIPI/TI) and the Committee of Experts on the Harmonization of Laws for the Protection of Marks (CEHLPM). The PCIPI/TI explore[d] trademark information collection and storage including trademark search systems, examination methods, application numbering systems, and classifications. The CEHLPM examine[d] harmonization of the trademark laws and recently developed a trademark administration treaty to facilitate worldwide trademark filing called the TLT.

At its inception, some WIPO convention delegates thought "[the WIPO's] existence [would] affect trademark rights at least in the same of affording a better structured and administrated vehicle through which our trademark interests [could] be identified and debated." However, by 1987, the United States General Accounting Office, Division of National Security and International Affairs (GAO) concluded that although the WIPO constitutes the foremost multilateral intellectual property forum, the government had made only limited progress towards strengthening international intellectual property rights and obligations through the WIPO. The GAO further concluded that this limited progress was due to the United States government actively opposing the efforts of developing countries to weaken existing international standards for trademark protection. . . .

. . .

F. Vienna Trademark Registration Treaty, 1973 (TRT)

The TRT resulted from the WIPO's failure to negotiate a revision to the Madrid Agreement acceptable to the countries, including the United States, which refused to accede to the Madrid Agreement but wanted to participate in an international filing and registration system. When the negotiations deadlocked, the WIPO asked the United States for a solution, and the United States responded by proposing the TRT.

The TRT created a compromise between those countries establishing ownership based on registration without priority of trademark use and those

requiring priority of trademark use. It . . . eliminated the United States' priority of trademark use requirement in favor of a declaration of intention to use. In addition, it allowed a minimum of three years with a discretionary extension to five years or more before trademark use becomes mandatory. It also permitted national law to bar an infringement action until after actual trademark use occurred within its borders.

. . . Although over fifty countries participated in the Vienna diplomatic conference, the TRT was ratified only by the five Paris Union countries which brought the TRT into force: Burkina Faso, Congo, Gabon, the Soviet Union, and Togo. . . .

G. Protocol Relating to the Madrid Agreement Concerning the International Regulation of Marks of 1989 (Madrid Protocol)

After the TRT failed to attract sufficient signatories to make it viable, the Madrid Union requested the WIPO to continue considering changes to the Madrid Agreement which would allow Great Britain, Ireland, Denmark, Greece, and the United States to join. The WIPO responded with the Madrid Protocol. Initially, the international trademark community, including the United States, hailed the Madrid Protocol as acceptable to everyone. [The Madrid Protocol is considered separately in Chapter V, *infra*].

NOTES AND QUESTIONS

1. In addition to these multilateral agreements, the United States has entered into several bilateral treaties that provide reciprocal protection under trademarks laws for parties of the signatory nations. For example, in April 1996, the United States and Taiwan entered into such an agreement. Taiwanese nationals thus receive the benefits of Section 44 of the Lanham Act.

2. What does Harriet Freeman mean by the statement that "The Paris Convention has been criticized because of its use of national treatment which allows a country to avoid providing trademark protection for foreigners if it does not provide trademark protection for its citizens." The Berne Convention also provides for national treatment in the case of copyright, but that concept was largely heralded rather than "criticized." In what ways is the Paris Convention different from the Berne Convention so as to provoke this response from Freeman?

3. Up-to-date listings of countries that are party to the primary international conventions are available online at the WIPO home page.

c. The Paris Convention

(i) History and Basic Principles

A Short History of the Paris Convention*

Prior to the Paris Convention, at least sixty-nine bipartite treaties provided some form of protection for foreigners' trademarks. Practically all of

these early treaties used the same general form for reciprocal protection of trademarks, namely, that the subjects of each of the contracting states shall enjoy respectively in the other state the same protection as nationals. A few bilateral treaties, some involving the United States, assured some form of protection in one country to trademarks affixed to goods in the other country, thus protecting marks on exports of those countries.

After conferences in 1873 and 1878 failed to reach agreement on a multilateral intellectual property treaty, the French government invited other states to the International Conference of 1880, which was attended by representatives of eighteen nations, including the United States. At the opening session, the French proposed creation of a union which would lay down a number of principles for protection of industrial property generally. The delegates from the United States were among those who declared that they lacked necessary instructions. Subsequently the United States delegation received instructions insisting upon a reservation that the conclusions of the conference on the subject of trademarks "must be considered as absolutely subordinate to such legislative provisions as may hereafter be made by this country."

In the end, a Draft Convention, together with a Final Protocol, was adopted and signed "proces-verbal" by the delegates of all the countries represented at the 1880 Conference. The French government called an International Convention at Paris in March 1883, at which time certain reservations and explanations were inserted into the Final Protocol, the main text of the Convention no longer being open to revision.

Eleven nations, but not the United States, signed the Convention and Final Protocol. The following year, representatives of those nations completed the final step of exchanging ratifications, and the acts of accession of four other nations were deposited. A month later, the Convention went into effect on July 7, 1884. The United States acceded to the Convention on May 30, 1887.

Joanna Schmidt-Szalewski, THE INTERNATIONAL PROTECTION OF TRADEMARKS AFTER THE TRIPS AGREEMENT[*]

9 Duke J. Comp. & Int'l L. 189, 193-201 (1998)

A. Principles Relating to the Substance of Protection

[T]he Paris Convention . . . contains two basic principles of international law that members must enforce in their reciprocal relations. The first is the national treatment principle, discussed generally in Article 2 and specifically as it relates to trademarks in Article 6, sections 1 and 2. The second is the principle of independence of rights, as embodied in Article 6, section 3.

a. *National Treatment Principle*. The principle of national treatment is applicable to all industrial property rights. The principle generally states that a member state may not subject foreigners benefitting from the Paris Convention to higher industrial property protection standards than those applicable to its own citizens.[23] In addition, it is not necessary to [show] that a trademark has been registered in the country of origin prior to registering it in another member state.[24] For example, if a citizen or corporation of Singapore wishes to obtain an

industrial property right in France, where both countries are Paris Convention member states, the Singapore national will obtain the right under the same conditions as a French citizen or corporation. The same outcome results at a multilateral level.

To understand fully the practical impact of the national treatment principle, it is necessary to understand that a member state may refuse industrial property rights protection to citizens or corporations of states that are not members of the Paris Convention. A member state may also subject non-member protections to stricter conditions than those applicable to its own nationals. For instance, because Thailand has not ratified the Paris Convention, a member state of the Convention could refuse to protect industrial property rights claimed by Thai citizens or corporations. A member state could also subject protection for these non-members to a condition of reciprocity, residence, the payment of a supplementary fee, or anything else.

. . .

b. *The Principle of Independence of Rights*. Under the principle of independence of rights, a trademark granted in a member state is independent from those that already exist in other member states for the same object, including in the country where it was first protected. [Art. 6(3).] Consequently, trademarks consisting of the same sign designating the same goods and belonging to the same owner in several Paris Convention member states are independent from one another. This rule extends the national treatment principle to an extreme because the trademark owner is subject exclusively to the national law of each country. The nullification, refusal, or transfer, for example, of the trademark in one member state has no influence on the rights protected in another member state.

The exceptions to the principle of independence include the priority right and the protection of the trademark "as such." The priority right in Article 4 is designed to facilitate the international protection of industrial property rights. Within six months from the first application in a member state, the applicant may file for registration of the same trademark in other member states using the date of the first application. [Art. 4C]. As a result, disclosures or uses of the trademark within the priority period are not grounds for nullification of the mark. [Art. 4B]. This priority right exception does not apply to service marks under the Paris Convention.

The second exception is the protection of the trademark "as such" in Article 6*quinquies*. This exception aims to solve the difficulties that arise from the existence of different prerequisites for trademark protection in different countries. For instance, some national laws prohibit registration of numbers or letters, whereas others allow such trademarks. Under such a system it would be impossible for a trademark holder to use a mark in the same form in several countries. The Paris Convention resolves this problem by providing that a trademark that has been registered in its country of origin in compliance with local law is to be registered in other contracting states "as it is," or in French, "telle quelle."

. . .

B. Principles Relating to the Procedure of Protection

. . . Article 12 of the Paris Convention provides the relevant procedural provisions, stating that each member state must "establish a special industrial property service, and a central office for the communication to the public of patents, utility models, industrial designs, and trademarks." Furthermore, under Article 12, each member state's service must publish an official periodical sheet.

. . .

III. TRADEMARK PROTECTION IN THE PARIS UNION

The "Paris Union" consists of the 1883 Paris Convention and a series of agreements subsequently signed within the Paris Convention's framework.

A. The Paris Convention of 1883

While the Paris Convention provides some rules specific to certain categories of industrial property rights. . . . it achieves a limited harmonization of international trademark law. The few trademark rules provided by the Paris Convention relate to the acquisition and content of a trademark right.

1. Rules on the Acquisition of Rights

a. *Prohibited Signs*. According to the Paris Convention, member states must prohibit trademark protection of certain official signs such as emblems of states, signs of control and guaranty, and emblems of international intergovernmental organizations. [Art. 16*ter*].

b. *Protection of Well-known Marks*. Even if they have not been registered, well-known marks benefit from an extended protection based on notoriety. [Art. 6bis]. Such marks are protected against all unauthorized use, even if they appear on goods different from those for which the mark was originally registered or used. Evidence of a well-known mark's notoriety must be found in the country where the protection of the mark is sought.

c. *Service Marks*. While they do not have to provide for the registration of such marks, member states have an obligation to protect service marks under Article 6*sexies*. However, the marks may be protected by other rules such as unfair competition.

d. *Collective Marks*. Member states have an obligation to protect collective marks under Article 7*bis*. These marks belong to a so-called association. However, such an association's existence cannot be contrary to the law of the country of origin.

e. *Nature of the Goods to which the Mark is Applied*. The nature of the product to which a trademark is applied may not impede the registration of the mark. [Art. 7]. For example, even if the marketing of certain goods is prohibited, the trademark applied to the goods may still be registered.

f. *Temporary Protection*. Member states have an obligation to grant temporary protection for trademarks during official international exhibitions. [Art. 11].

g. *Specific Mention*. Member states may not require as a condition of

protection that the product bear a specific mention of the trademark registration. [Art. 5D].

2. Rules on the Content of Rights

a. *Use*. Member states may require that the rightsholder effectively uses the trademark. [Art. 5C(1)]. When an owner fails to use the trademark within a reasonable period of time, and does not have a valid reason for the disuse, the owner may be deprived of the trademark right.

b. *Co-Owners*. Simultaneous use of the trademark by co-owners to designate identical or similar products will not limit the trademark's protection, so long as the use does not deceive the public and is not contrary to public interest. [Art. 5C(3)].

c. *Grace Periods*. A grace period of at least six months must be granted for payment of fees due for maintenance or renewal of the trademark right. [Art. 5*bis*(1)].

. . .

B. Conventions Based on Paris

Article 19 of the Paris Convention permits the conclusion of special agreements between member states. Presently, four such special agreements exist relating to trademarks: the Madrid Agreement, the Trademark Registration Treaty, the Madrid Protocol, and the Trademark Law Treaty.

. . .

———————————

The Paris Convention was last revised at Stockholm in 1967; further revision efforts were undertaken throughout the early 1980s, but no agreement was reached. Despite this impasse, the Paris Convention clearly contributed toward the development of international trademark law in at least three ways mentioned by Schmidt-Szalewski. First, it obliged signatory states to accord nationals of other member nations the same treatment as granted its own nationals (art. 2): this principle of "national treatment" is essentially an international equal protection clause for trademark applicants and owners. Second, it included certain minimal procedural mechanisms to facilitate the acquisition of trademark rights on a multinational basis: more particularly, it required that marks registered in one country be accepted in other countries "telle quelle" (art. 6 of original text, now art. 6*quinquies*), and created rights of priority (art. 4). Finally, it obliged member states to provide certain basic levels of trademark and unfair competition protection, so-called "substantive minima" (*e.g.*, arts. 6*bis*, 10*bis*). We will examine each of these contributions in turn, but first we briefly discuss the means by which the Paris Convention is implemented in national law. This discussion will also allow us to consider one of the substantive minima contained in the Convention, namely Article 10*bis*.

(ii) Implementation in National Law

The United States acceded to the Paris Convention on May 30, 1887. The Convention was revised successively at Washington (1911), the Hague (1925), London (1934), Lisbon (1958), and Stockholm (1967). The United States has acceded to the 1967 Stockholm text; this will soon be the almost universal Paris Convention text in light of the requirement imposed upon WTO members by Article 2 of TRIPS to adhere to the Stockholm text.

As discussed in Chapter IV, not all treaties are self-executing. And different countries follow different mechanisms for making treaty provisions part of their respective laws. In the United Kingdom, for example, treaties are not self-executing and require affirmative implementation to be effective. In the United States, some (but not all) treaties are self-executing. U.S. courts have been split on the question of whether the trademark provisions of the Paris Convention are self-executing. In 1946, Section 44 of the Lanham Act was enacted largely to ensure implementation of the treaty obligations of the United States. But the status of the convention in U.S. law remains of significance, as the following cases illustrate.

Article 10*bis* of The Paris Convention

(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

(3) The following in particular shall be prohibited:

1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;

2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;

3. Indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.

VANITY FAIR MILLS v. T. EATON CO.
234 F.2d 633, 640-644 (2d Cir. 1956)

WATERMAN, C.J.

[The plaintiff, a Pennsylvania corporation, sought to apply the Lanham Act extraterritorially to acts of alleged trademark infringement by a Canadian defendant occurring both in the United States and in Canada. The Court declined to apply the Lanham Act extraterritorially to the Canadian conduct. *See* Chapter VII. The plaintiff also alleged U.S. jurisdiction over the Canadian conduct under the Paris Convention (1934 London text, which was the most recent text at the time), either directly or through the implementing provisions of Section 44 of the Lanham Act.]

I. *The International Convention*

Plaintiff asserts that the International Convention for the Protection of Industrial Property (Paris Union) [cit.], to which both the United States and Canada are parties, is self-executing; that by virtue of Article VI of the Constitution it is a part of the law of this country which is to be enforced by its courts; and that the Convention has created rights available to plaintiff which protect it against trade-mark infringement and unfair competition in foreign countries. Plaintiff would appear to be correct in arguing that no special legislation in the United States was necessary to make the International Convention effective here,[25] but it erroneously maintains that the Convention created private rights *under American law* for acts of unfair competition occurring in foreign countries.

The International Convention is essentially a compact between the various member countries to accord in their own countries to citizens of the other contracting parties trade-mark and other rights comparable to those accorded their own citizens by their domestic law. The underlying principle is that foreign nationals should be given the same treatment in each of the member countries as that country makes available to its own citizens. In addition, the Convention sought to create uniformity in certain respects by obligating each member nation "to assure to nationals of countries of the Union an effective protection against unfair competition." [Art. 10*bis*].

The Convention is not premised upon the idea that the trade-mark and related laws of each member nation shall be given extraterritorial application, but on exactly the converse principle that each nation's law shall have only territorial application. Thus a foreign national of a member nation using his trade-mark in commerce in the United States is accorded extensive protection here against infringement and other types of unfair competition by virtue of United States membership in the Convention. But that protection has its source in, and is subject to the limitations of, American law, not the law of the foreign national's own country. Likewise, the International Convention provides protection to a United States trade-mark owner such as plaintiff against unfair competition and trade-mark infringement in Canada—but only to the extent that Canadian law recognizes the treaty obligation as creating private rights or has made the Convention operative by implementing legislation. Under Canadian law, unlike United States law, the International Convention was not effective to create any private rights in Canada without legislative implementation. However, the obligations undertaken by the Dominion of Canada under this treaty have been implemented by legislation, most recently by the Canadian Trade Marks Act of 1953. [cit.] If plaintiff has any rights under the International Convention (other than through section 44 of the Lanham Act, discussed below), they are derived from this Canadian law, and not from the fact that the International Convention may be a self executing treaty which is a part of the law of this country.

II. *The Lanham Act*

[The Court rejected plaintiff's request to apply the Lanham Act extraterritorially under the principles laid down by the Supreme Court in *Steele v. Bulova Watch*, *infra* Chapter VII.]

B. *Section 44 of the Lanham Act*

Plaintiff's alternative contention is that Section 44 of the Lanham Act, which is entitled 'International Conventions,' affords to United States citizens all possible remedies against unfair competition by foreigners who are nationals of convention countries, including the relief requested in this case. Subsection (b) of section 44 specifies that nationals of foreign countries signatory to certain named conventions (including the Paris Union signed by Canada) are 'entitled to the benefits . . . (of the Act) to the extent . . . essential to give effect to (the conventions).' Subsection (g) then provides that the trade names of persons described in subsection (b), *i.e.*, nationals of foreign countries which have signed the conventions, 'shall be protected without the obligation of filing or registration whether or not they form parts of marks', and subsection (h) provides that the same persons 'shall be entitled to effective protection against unfair competition . . .' Finally, subsection (i) provides that 'citizens or residents of the United States shall have the same benefits as are granted by this section to persons described in subsection (b) . . .' Thus section 44 first implements the international agreements by providing certain foreign nationals with the benefits contained in those agreements, then, in subsection (i), places American citizens on an equal footing by providing them with the same benefits. [cit]. Since American citizens are given only the same benefits granted to eligible foreign nationals, the benefits conferred on foreign nationals must be examined to see whether they have any extraterritorial application.

The benefits provided by section 44 (without attempting to be exhaustive) may be summarized as follows: a foreign national may register his foreign mark upon the production of a certificate of registration issued by his country of origin, even though he has not used his mark in United States commerce, § 44(c), 15 U.S.C.A. § 1126(c); in determining priority of filing, if the foreign national has filed for registration in the United States within six months after filing abroad, he may make use of his foreign filing date but if his foreign registration antedates the six month period, he may use only his United States Filing date, § 44(d), 15 U.S.C.A. § 1126(d); a foreign national may register his foreign mark on the Principal Register if they are eligible, and, if not, on the Supplemental Register, § 44(e), 15 U.S.C.A. § 1126(e); a foreign national may prevent the importation into the United States of goods bearing infringing marks or names, § 42, 15 U.S.C.A. § 1124; once a foreign mark has been registered under the Lanham Act, its status in the United States is independent of the continued validity of its registration abroad, and its duration, validity, and transfer in the United States are governed by 'the provisions of this chapter', § 44(f), 15 U.S.C.A. § 1126(f). It will be noted that all of these benefits are internal to the United States in the sense that they confer on foreign nationals certain rights in the United States. None of them could have extraterritorial

application, for all of them relate solely to the registration and protection of marks within the United States.

We now come to the two remaining benefits specified in section 44, and the ones upon which plaintiff relies: the provision in subsection (g) protecting trade-names without the obligation of filing or registration, and the provision in subsection (h) entitling eligible foreign nationals 'to effective protection against unfair competition' and making available 'the remedies provided in this chapter for infringement of marks . . . so far as they may be appropriate in repressing acts of unfair competition.' Here again, we think that these benefits are limited in application to within the United States. It is true that they are not expressly so limited, but it seems inconceivable that Congress meant by this language to extend to all eligible foreign nationals a remedy *in the United States against unfair competition occurring in their own countries*. Moreover, if section 44 were so interpreted, it would apply to commerce which is beyond the Congressional power to regulate, and a serious constitutional question would be created. In the absence of any Congressional intent to provide remedies of such extensive application, we interpret section 44 in a manner which avoids constitutional questions and which carries out the underlying principle of the International Conventions sought to be implemented by section 44—the principle that each nation shall apply its national law equally to foreigners and citizens alike.

Since United States citizens are given by subsection (i) of section 44 only the same benefits which the Act extends to eligible foreign nationals, and since the benefits conferred on those foreign nationals have no extraterritorial application, the benefits accorded to citizens by this section can likewise have no extraterritorial application.[26]

. . .

GENERAL MOTORS CORP. v. IGNACIO LOPEZ DE ARRIORTUA

948 F.Supp. 684 (E.D.Mich. 1996)

EDMUNDS, District Judge.

Plaintiffs, General Motors Corporation ("GM") and Adam Opel AG ("Opel"), brought suit against Defendants alleging theft of trade secrets and conspiracy. GM is an American corporation and Opel is a German corporation wholly owned by GM. Defendants include:

1. Volkswagen AG, a German corporation ("VW")
2. Volkswagen of America, Inc., wholly owned by Volkswagen AG ("VWOA")
3. The "Lopez Group," including . . . Jose Ignacio Lopez, a former executive at GM Espana, Opel, and GM (Europe) AG. On February 1, 1993 he became group vice president of GM. Subsequently, on March 10, 1993, he resigned from GM and moved to Germany. On March 16, he joined VW and was appointed to its management board. . . .

Plaintiffs allege that while Lopez was a high level GM executive, he

secretly communicated with VW representatives and agreed to leave GM and join VW. He agreed to bring confidential business plans and trade secret information with him. Lopez worked with the other Lopez Group Defendants to secretly collect confidential information. In March of 1993, the Lopez Group Defendants left GM and Opel to join VW where they were paid significantly higher salaries. They allegedly took over 20 cartons of stolen documents with them. Plaintiffs allege that Defendants copied the documents and entered them into VW computers, and then proceeded to shred the documents and cover up the theft.

On March 7, 1996, Plaintiffs filed this suit. Counts 3 and 4 of their complaint allege that Defendants violated the Lanham Act, 15 U.S.C. § 1126, and that Defendants violated the Copyright Act. [cit]. The complaint further alleges that VW has used and continues to use the trade secret information to reduce its costs and to increase its market share. Defendants moved to dismiss count 3 (Lanham Act) and count 4 (Copyright Act). For the reasons set forth below, Defendants' motions are denied.

. . .

All Defendants (except those who have not been served) have moved to dismiss count 3 of the complaint. Count 3 alleges that Defendants violated the substantive terms of the Paris Convention, an international agreement incorporated into section 44 of the Lanham Act. [cit]. Defendants contend that the Lanham Act does not incorporate any substantive provisions of the Paris Convention, and thus that Plaintiffs have failed to state a viable claim for relief. They argue that the Paris Convention only required that signatory nations provide the same trademark protection to foreign citizens that they provide to their own citizens. Courts are split on the issue of whether section 44(b) of the Lanham Act incorporates substantive rights set forth in the Paris Convention.

Generally, the Lanham Act prohibits two types of unfair competition: trademark infringement (15 U.S.C. § 1114) and false designation of origin or "passing off" (15 U.S.C. § 1125). In addition, the Lanham Act provides rights stipulated by international conventions respecting unfair competition. Section 1127 provides:

> The intent of this chapter is . . . to provide rights and remedies stipulated by treaties and conventions respecting trade-marks, trade names, and unfair competition entered into between the United States and foreign nations.

This purpose is implemented in sections 44(b), (h), and (i). Section 44(b) provides:

> Any person whose country of origin is a party to any convention or treaty relating to trademarks . . . to which the United States is also a party . . . shall be entitled to the benefits of this section under the conditions expressed herein *to the extent necessary to give effect to any provision of such convention [or] treaty . . . in addition to the rights to which any owner of a mark is otherwise entitled* by this chapter.

15 U.S.C. § 1126(b) (emphasis added). Under section 44(h), foreign citizens are entitled to protection against unfair competition as follows:

> Any person designated in subsection (b) of this section as entitled to the benefits and subject to the provisions of this chapter shall be entitled to effective protection against unfair competition, and the remedies provided in this chapter for infringement of marks shall be available so far as they may be appropriate in repressing acts of unfair competition.

15 U.S.C. § 1126(h). The Act specifically provides under section 44(i) that United States citizens shall have the same rights as foreigners. "Citizens or residents of the United States shall have the same benefits as are granted by this section to persons described in subsection (b) of this section." 15 U.S.C. 1126(i).

One treaty incorporated by this section is the International Convention for the Protection of Industrial Property, the Paris Convention. [cit]. The Paris Convention requires signatory nations to prohibit unfair competition.

> (1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.[27]
> (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

Paris Convention, article 10*bis*. The broad concept of unfair competition set forth in the Paris Convention has been described as follows:

> Article 10*bis* is not premised upon the narrow meaning of "unfair competition" as it was understood in American common law, but adopts the more liberal construction of the European countries such as France, Germany and Switzerland . . . The statement that unfair competition is competition "contrary to honest practice" is not a definition; it merely expresses the concept that a particular act of competition is to be condemned as unfair because it is inconsistent with currently accepted standards of honest practice. It impliedly affirms that unfair competition is too broad a concept to be limited to any narrow definition such as for instance, passing off.

4A Rudolf Callmann, *The Law of Unfair Competition, Trademarks and Monopolies*, § 2610 (4th ed. 1994). The United States and Germany are both signatories to the Paris Convention.

Defendants concede that the Lanham Act incorporates the Paris Convention. However, they contend that the Paris Convention does not provide substantive rights, and that it only requires "national treatment." . . .

Agreeing with the "national treatment" analysis, in *Vanity Fair Mills, Inc. v. T. Eaton Co.* [cit], the Second Circuit interpreted the Paris Convention and the Lanham Act as providing only limited protection from acts of unfair

competition. In that case, plaintiff was an American company who brought suit against a Canadian company, alleging that the defendant violated plaintiff's trademark when it sold goods in Canada using plaintiff's "Vanity Fair" label. The court held that the Paris Convention was premised on the concept of national treatment and that the laws of the signatory nations should not have extraterritorial application. Thus, plaintiff could not hold the defendant Canadian corporation liable under American law for a trademark violation that occurred in Canada. *See also Majorica S.A. v. Majorca International, Ltd.*, 687 F.Supp. 92 (S.D.N.Y.1988) (following *Vanity Fair*, court held that where Spanish Company sued American Company, Spanish law was not entitled to application in U.S. under Paris Convention). . . .

Contrary to *Vanity Fair*, other courts have held that the Lanham Act incorporates international agreements. In *Toho Co. v. Sears, Roebuck & Co.*, 645 F.2d 788, 792 (9th Cir.1981), a Japanese company brought suit against Sears, an American company, alleging unfair competition. The court explained that sections 44(b) and (h) incorporated the provisions of a treaty between the United States and Japan. "The federal right created by subsection 44(h) is coextensive with the substantive provisions of the treaty involved. . . . [S]ubsections (b) and (h) work together to provide federal rights and remedies implementing federal unfair competition treaties." *Toho*, 645 F.2d at 792. The U.S.-Japan treaty only required national treatment. Thus, the court reasoned that the Japanese company was entitled to bring the same claims as an American company would be entitled to bring: both claims for trademark infringement and false designation of origin under the Lanham Act as well as a claim for unfair competition under state law.

. . .

Still other courts have taken *Toho* one step further and have held that the Lanham Act incorporates the substantive provisions of the Paris Convention and thus creates a federal law of unfair competition applicable in international disputes. In *Maison Lazard et Compagnie v. Manfra, Tordella & Brooks, Inc.*, 585 F.Supp. 1286, 1289 (S.D.N.Y.1984), a French company brought suit against an American company, alleging that the American company sold commemorative Olympic coins overseas in violation of the plaintiff's exclusive right to make such sales. In essence, the French company claimed that the defendant misappropriated an exclusive right and that this constituted unfair competition under the Paris Convention. The court followed *Toho*, holding that the Lanham Act incorporated the Convention. Because the Paris Convention provides broad protection from unfair competition, the court held that the plaintiff had a valid federal claim for misappropriation of an exclusive right. *Accord Laboratorios Roldan, C. por A. v. Tex International, Inc.*, 902 F.Supp. 1555, 1568 (S.D.Fla.1995) (because Dominican company was entitled to protection from unfair competition under the Lanham Act and the Paris Convention, it was entitled to bring federal claim against American company for trademark and trade dress infringement and misrepresentation).

The court is persuaded that *Toho* and *Maison Lazard* properly interpret the Lanham Act as incorporating the substantive provisions of the Paris Convention. The express purpose of the Lanham Act dictates this result. "The intent of this chapter is . . . to provide rights and remedies stipulated by treaties and conventions. . . ." 15 U.S.C. § 1127. The Paris Convention provides that

signatory countries must protect individuals from unfair competition. Article 10*bis*. Subsection (b) of the Lanham Act implements this concept by providing that foreigners are entitled to benefits "to the extent necessary to give effect to any provision" of a convention. Subsection (h) specifies that foreigners are entitled "to protection against unfair competition."

The intent of Congress to incorporate substantive rights is further manifested in subsection (i), which provides that United States citizens shall be entitled to the same rights as foreign citizens. It was necessary to enact subsection (i) to make it clear that United States citizens were entitled to *additional* rights provided by the treaties incorporated. If the incorporation of the treaty did not incorporate additional rights, it would have been unnecessary to enact section 44(i). Interpreting section 44(b) as merely requiring "national treatment" renders section 44(i) superfluous. Courts must interpret statutes so as to give effect to every word and to avoid rendering certain language superfluous. . . .

The legislative history also reveals Congressional intent to incorporate additional rights and to provide such rights both to foreigners and to citizens. Congress expressed its concern that Americans be given the same protection from unfair competition as foreigners.

> We have the curious anomaly of this Government giving by treaty and by law with respect to trade-marks and unfair competition to nationals of foreign governments greater rights than it gives its own citizens. . . . This [subsection 44(i) in the final draft] is an attempt to put the citizen on an equality with the foreigner. . . .

Hearings on H.R. 4744 Before the Subcomm. on Trademarks of the House Comm. on Patents, 76th Cong., 1st Sess. (1939), p. 164. Congress also explained that the Paris Convention prohibited unfair competition more broadly than did the Lanham Act. "The European Convention [meaning the Paris Convention] however, goes much farther than that and prohibits commercial bribery among other things. . . ." *Id.* at 168.[28]

The legislative history also reveals that Congress specifically considered whether it should broadly prohibit unfair competition. A prior draft of section 44 included the following as subsection (g):

> All acts of unfair competition in commerce are declared to be unlawful and the provisions of section 32 to 35 inclusive shall be applicable thereto.

Id. at 163. One Congressman pointed out that the term "unfair competition" included all types of artificial interference with trade, including disparagement, trade bribery, and the like. [cit]. This draft of the statute provided the rights that the United States was obligated to provide by the Paris Convention. [cit]. At the subcommittee hearing, the legislators decided that the term "unfair competition" as used in subsection (g) was "dangerously broad," *id.* at 167, and that subsection (g) should be deleted. [cit]. The legislators did not acknowledge that by deleting

subsection (g), the statute failed to fully incorporate the Paris Convention.

However, the legislators reversed this position. The final version of the statute contains language substantially similar to the deleted subsection (g). As discussed above, section 44(h) provides foreigners with "effective protection against unfair competition." The inclusion of this language is consistent with Congress' concern that it fully implement the Paris Convention, including the Convention's broad prohibition of unfair competition.

Opel seeks the right to sue for unfair competition pursuant to 44(h), and GM seeks to enforce the same rights pursuant to section 44(i). Because the Lanham Act incorporates the Paris Convention's broad prohibition against unfair competition, Plaintiffs have stated a claim.[29]

Defendants also claim that the Lanham Act does not reach extraterritorial acts. This is incorrect. Congress has the power to regulate even entirely foreign commerce where it has a substantial effect on commerce between the states or between the United States and foreign countries. *Vanity Fair*, 234 F.2d at 641. *Accord Consolidated Gold Fields PLC v. Minorco, S.A.*, 871 F.2d 252, 261-62 (2d Cir.1989) (federal statutes apply if underlying conduct occurred within U.S. or if conduct which occurred abroad has substantial effects within U.S.). "Particularly is this true when a conspiracy is alleged with acts in furtherance of that conspiracy taking place in both the United States and foreign countries." *Id.* *See also Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952) (holding U.S. citizen who sold infringing watches only in foreign countries liable under Lanham Act).

. . .

Defendants' joint motion to dismiss counts 3 and 4 is DENIED

NOTES AND QUESTIONS

1. While Congress made clear that the principal copyright treaty was not self-executing, *see* Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988), it has never been very clear with multilateral trademark treaties. The Supreme Court held that the Inter-American Convention was self-executing, *see, e.g.*, *Bacardi Corp. Of Am. v. Domenech*, 311 U.S. 150, 159 (1940), but the U.S. Attorney-General issued an opinion in 1889 declaring that the Paris Convention of 1883 was not self-executing. *See* 19 Op. Att'y Gen. 273 (1889). Courts have been split on the latter question. *See generally* John B. Pegram, *Trademark Law Revision: Section 44*, 78 Trademark Rep. 141, 158-162 (1988). Although most courts have rejected claims that the Paris Convention is self-executing, *see, e.g., French Republic v. Saratoga Vichy Spring Co.*, 191 U.S. 427, 438 (1903), lower courts appear to be more receptive to the argument of late. *See, e.g.*, *Laboratories Roldan C. v. Tex Int'l*, 902 F. Supp. 1555, 1568 (S.D. Fla. 1995) (recognizing claim under Article 10*bis* of the Paris Convention); *Benard Indus. v. Bayer*, 38 U.S.P.Q.2d 1422, 1426 (S.D. Fla. 1996) (permitting claim under Paris Convention to proceed). The arguments in favor of self-execution are probably stronger with respect to some texts of the Convention than others. *See* Pegram, *supra*, at 161-162 (noting arguments that "whatever the effect of the London text, the likelihood that the Lisbon text is not self-executing has been recognized"). Compare the following provisions:

> The carrying out of the reciprocal obligations contained in the present Convention is subject, as far as necessary, to the observance of the formalities and rules established by the constitutional laws of those of the countries of the Union which are bound to procure the application, which they undertake to do with as little delay as possible.

London Text, art. 17

> It is understood that at the time an instrument of ratification or accession is deposited on behalf of a country, such country will be in a position under its domestic law to give effect to the provisions of this Convention.

Lisbon Text, art. 17

> (1) Any country party to this Convention undertakes to adopt, in accordance with its constitution, the measures necessary to ensure the application of this Convention.
> (2) It is understood that, at the time a country deposits its instrument of ratification or accession, it will be in a position under its domestic law to give effect to the provisions of this Convention.

Stockholm text, art. 25.

2. The meaning of section 44(i) of the Lanham Act has always been unclear. Textually, it extends to U.S. nationals the same rights that section 44 accords foreign nationals. The Ninth Circuit initially interpreted the provision broadly to create a federal right of unfair competition, but courts have largely retreated from that position (particularly in light of the robust development of section 43(a)). *See* J. Thomas McCarthy, *Lanham Act § 43(a): The Sleeping Giant Is Now Wide Awake*, 59 LAW & CONTEMP. PROB. 45, 49-50 (1996) (describing rise and fall of section 44(i)).

3. Which of the competing interpretations of the intersection between section 44 of the Lanham Act and the terms of the Paris Convention is most persuasive? What weight should be given to section 44(b), which explicitly but generally implements the Paris Convention together with other conventions or treaties relating to trademarks, trade names, or unfair competition? What effect will the different interpretations by the *Vanity Fair* and *Lopez* courts have on competitors' rights under the Lanham Act? How might the development of trademark and unfair competition law in the U.S. courts be affected by the different approaches of those courts? In light of the confusion surrounding the meaning of Section 44, some prominent commentators have argued that Congress should provide a specific delineation of the rights provided foreign nationals. *See* John B. Pegram, *Trademark Law Revision: Section 44*, 78 Trademark Rep. 141, 142 (1988). Would that help?

4. In Scotch Whisky Ass'n v. Majestic Distilling Co., 958 F.2d 594 (4th Cir. 1992), an association of Scotch whisky distillers (the SWA) sought to restrain a Maryland-based liquor bottler and distributor (Majestic) from marketing gin and vodka under the name BLACK WATCH and a label

containing images evocative of Scotland. SWA pursued its unfair competition claims against Majestic under section 43(a) of the Lanham Act, Articles 10 and 10*bis* of the Paris Union Convention (1883) via sections 44(b) and (h) of the Lanham Act, and Maryland state law. The court regarded the scope of each of these claims as coterminous and concluded that the SWA was required to show a likelihood of confusion as to the product's origin to make out any of these claims (which it failed to do). The court specifically rejected SWA's contention that the rights conferred by the Paris Union Convention exceed those conferred by the Lanham Act. The court's opinion also noted, however, that "subsections 44(b) and 44(h) work together to provide foreign nationals with rights under United States law which are coextensive with the substantive provisions of the treaty involved." In particular, the court noted that "the language of section 43(a) of the Lanham Act is . . . more specific than that used in the Paris Union Convention. By its use of generalities, the Convention provisions relied on by SWA might well cover acts of unfair competition beyond those related to the unfair use of trademarks. However, it is the alleged unfair use of trademarks that is involved in this litigation, specifically the deceptive use of a description of a product's origin. The broad language of the Paris Union Convention in its application here cannot apply to a spectrum of unfair competition that is broader than that covering the use of trademarks which deceptively indicate a product's origin. We think then, as apparently did the district court, that vis-a-vis trademark protection under the Paris Union Convention gives no greater protection than that already provided by section 43(a) of the Lanham Act." Does this dicta suggest an interpretation that might (contrary to the assumption of the *Lopez* court) permit the reconciliation of *Vanity Fair* and *Lopez*? Is the *Scotch Whisky Association* interpretation of the interaction between Section 44 and the Paris Convention a plausible one? Does it suggest that trademark-related actions under Article 10*bis* be treated as co-extensive with Lanham Act claims but non-trademark based claims beyond the reach of Section 43 of the Lanham Act be permitted? Would there be a basis for such a distinction?

5. The *Lopez* court decided that the plaintiffs stated a claim under the Paris Convention. But how should the court subsequently determine the content of the rights against unfair competition that the defendants have allegedly violated? In footnote 4, the court notes that "if the Paris Convention grants substantive rights it is not clear what those rights are." This suggests some type of international standard emanating from the text and history of the Convention itself. The court continues, however, to warn that "because the plaintiff seeks enforcement of foreign law, it is their obligation to inform the court of the content of that law." What does the court mean by "foreign law"? German law? International law, as grounded in the text of the Paris Convention? International standards as evidenced by the evidence of persons engaged in international trade today? The leading authority on the Paris Convention has written that "what is to be understood by 'competition' will be determined in each country according to its own concepts" but that whether an act is contrary to honest practices in industrial or commercial matters is not limited to honest practices existing in the country where protection against unfair competition is sough but should also take into account "honest practices established in international trade." Bodenhausen, at 142-46. Similarly, the Notes that accompany WIPO's Model Provisions on

Protection Against Unfair Competition argue for account to be taken of conceptions of honest practices in international trade, rather than solely the country where the conduct occurs. *See* Model Provisions on Protection Against Unfair Competition, Notes 1.03, 1.04 (WIPO 1996). What sources or authorities should courts consult to determine those standards? Are there universal standards of honesty or fairness in commercial practice? From what sources do we fill those terms with meaning in the domestic context? Should those standards be different in the international context? In footnote 5, the *Lopez* court suggests that "the Lanham Act incorporates the substantive provisions of the Paris Convention and thus creates a federal law of unfair competition applicable in international disputes. Diversity jurisdiction would still apply in a domestic dispute." How would you determine whether a dispute was "international," thus warranting treatment under "a federal law of unfair competition applicable in international disputes"?

6. What precisely is the obligation imposed on member states by Article 10*bis*? Must protection be provided only against a competitor alleged to be dishonest, or is it sufficient to invoke the protection of Article 10*bis* that its conduct is regarded as unfair? What does Article 10*bis*(3) add to the first two provisions of Article 10*bis*? *Cf.* Bodenhausen, at 142 (suggesting that paragraphs (2) and (3) "are so worded that they must be considered self-executing, in countries which admit this possibility, and must therefore be directly applied by the judicial or administrative authorities of the country where protection against unfair competition is sought"). Does Article 10*bis*(3) assist in the interpretation of Article 10*bis* as a whole? To what extent do member countries of the Paris Union have latitude as to the means by which they implement Article 10*bis*? As we saw in Chapter II, protection against unfair competition is achieved by countries through a wide range of different means. It is clear that member states may base compliance with Article 10*bis* on common law principles, on specially enacted legislation, or a combination of both. The type of legislation varies significantly: it may proscribe acts of unfair competition generally or provide an exhaustive lists of prohibited acts; it may impose civil or criminal or administrative sanctions; and, it may protect competitors and consumers under different provisions. Member states may achieve the result demanded by Article 10*bis* through a combination of some or all of these different elements. What are the advantages of these different approaches? To what extent should these questions be left to courts or addressed by legislatures? Which mix would you advocate? Which laws could be said to implement the obligations of the United States under Article 10*bis*? Does the United States comply with the requirements of Article 10*bis*?

7. In 1996, the WIPO published Model Provisions on Protection Against Unfair Competition. These provisions built upon a study commissioned by WIPO from the Max Planck Institute and published in 1994. *See* Protection against Unfair Competition: Analysis of the Present World Situation (1994). The report was seen as "a first step in a series of activities with respect to improved protection against unfair competition." Charles Gielen, *WIPO and Unfair Competition*, 19 EUR. INTELL. PROP. REV. 78 (1997). The Notes that accompany the Model Provisions claim to "implement that obligation [under Article 10*bis*] by defining, in Articles 2 to 6, the principal acts or practices against which

protection is to be granted and by providing a basis for protection against any other acts of unfair competition." Note 1.1 Are these stated objectives consistent with Professor Gielen's observation?

Article 1(b) of the Model Provisions expressly provides that any person "damaged or likely to be damaged by an act of unfair competition shall be entitled to remedies referred in . . ." But the Article has intentionally been unfinished, to be completed after a WIPO study on the enforcement of intellectual property rights. *See infra* Chapter VII. In this task, the Notes suggest that provisions of Part III of the TRIPS Agreement will be of significance. Professor Gielen notes that Article 2, which elaborates upon obligations in respect of acts causing confusion, contains "terminology [that] has been modernized in respect of the provisions from the [Paris] Convention." *See* Gielen, at __. In the text of the article this modernization takes the form of expressly recognizing forms of identifiers such as "product appearance" and "a celebrity or well-known fictional character" that have been in the vanguard of the expansion of trademark protection since the drafting of the Paris Convention. (Bodenhausen suggested in 1968 that Article 10*bis*(3) extends to confusingly similar uses of packages as well as words.) The Notes to Article 2 also acknowledge modern trademark developments by recognizing that to be actionable confusion need not be as to source or origin, but should also include "confusion with respect to affiliation." Article 3 goes even further and provides that "any act or practice, in the course of industrial or commercial activities, that damages, or is likely to damage, the goodwill or reputation of another's enterprise shall constitute an act of unfair competition, regardless of whether such act or practice causes confusion." This dilution protection, meaning protection against "the lessening of the distinctive character or advertising value of a trademark," is expressly made applicable by Article 3(2) to identifiers such as "product appearance" and "a celebrity or well-known fictional character."

To what extent do the Model Provisions expand obligations under international conventions? Do they simply recognize a modern interpretation of those obligations? What are the advantages and disadvantages of the use of mechanisms such as the Model Provisions to "modernize" or "interpret" or "implement" the obligations set forth in international treaties? *See* Gielen, at __ ("The Model Provisions drawn up by WIPO are an extremely useful tool for countries wishing to adopt or improve legislation on unfair competition. They are certainly a modernisation of Article 10*bis* of the Paris Convention, the importance of which has now been reinforced by Article 2 of TRIPS."); *cf.* Lund v. Kohler, 163 F.3d 27 (1st Cir. 1998) (noting genuine issues regarding the constitutionality of dilution protection for product designs under federal dilution legislation). Professor Cornish has criticized the Model Provisions as exceeding the scope of proper WIPO authority. "Under [Article 15(5) of] the Paris Convention, the [International] Bureau [of WIPO] is required to conduct studies and provide services designed to facilitate the protection of industrial property. On the other hand, it has no power to pronounce on interpretation or application of the Convention and so may express no opinion on the merits of contested views between Member States." William R. Cornish, *Genevan Bootstraps*, 19 Eur. Intell. Prop. Rev. 336 (1997) ("To claim that 'implementation' of the Paris Convention is not interpretation of it would be complete bosh."). Putting aside

the question of proper WIPO conduct, what are the dangers of WIPO Model Laws such as these? WIPO has published several. *See* Cornish at __. What weight should be given to the Model Provisions and the accompanying Notes prepared by WIPO should compliance with international trademark and unfair competition obligations come before the World Trade Organization? Should the "no-interpretation" rule imposed upon WIPO by Article 15(5) of Paris be repealed?

8. The U.K. has no general law of unfair competition, but argues that it fulfills its obligations under Art. 10*bis* through various torts such as passing off, malicious falsehood, and breach of confidence as well as through a range of consumer protection legislation. *See* Ruth E. Annand, *Lookalikes Under the New United Kingdom Trade Marks Act 1994*, 86 Trademark Rep. 142, 160-161 (1996). Is this sufficient to comply with Article 10*bis*?

9. Article 1(2) of the Paris Convention includes protection against unfair competition as one of the objects of industrial property protection. In the Notes to the WIPO Model Provisions, reference is made to the obligation under Article 2 of the TRIPS Agreement to implement Article *10bis*. Protection against unfair competition is not expressly one of the "intellectual property rights" specified in Article 1(2) of TRIPS as subject to the full rigors of the TRIPS Agreement. How are these two provisions to be reconciled?

10. In Laboratorios Roldan, C. Por A. v. Tex Int'l, Inc. 902 F. Supp. 1555 (S.D. Fla. 1995), the plaintiff had owned the registered mark ROLDAN for soap in the Dominican Republic in 1959. Since 1990, the plaintiff has made a version of its soap for export to, and sale in, the United States, but did not itself sell its product directly into the United States. The defendants were among those who imported plaintiff's products from the Dominican Republic for sale in the United States, primarily to wholesalers and retailers in South Florida. In response to customers' requests for ROLDAN soap, the defendants sought to secure a distribution agreement with the plaintiff for the territories of the United States, Canada, the Caribbean and Africa. When negotiations failed, the defendants formed a corporation called Roldan Corporation to produce ROLDAN products. Roldan was not licensed by the plaintiff to make or sell ROLDAN products, and the defendants' ROLDAN products are not made with the authority or consent of plaintiff, and are not made according to plaintiff's quality control or supervision.

Defendants sold the soap in packaging that uses a trade dress that is nearly identical to the trade dress that plaintiff has used since 1970 or 1971 for its soap product. The packaging of this product states in Spanish and French that it is made "for Roldan" in "the European Economic Community." Evidence before the court demonstrated that purchasers believed that the defendants' products were made by the plaintiff or someone affiliated or associated with plaintiff, such as a subsidiary. The plaintiff experienced the displacement of the market for its products: sales decreased approximately eighteen percent (18%) as a result of the defendants' activity. Moreover, consumer complaints were being received by the plaintiff about soap that it did not produce. The plaintiff brought an action under Section 43 of the Lanham Act and under Section 44(h) of the Lanham Act/Paris Convention. The court found that the plaintiff was likely to prevail under both claims. As regards the Section 43(a) claim, the court held that the plaintiff

established first use of its trademark and trade dress in the United States and was thus entitled to restrain confusingly similar use by the defendants. The court also recognized likely success on the Section 44(h) claim, taken in combination with Articles 6*bis* and 10*bis* of the Paris Convention. The court concluded that the defendant's "behavior constitutes unfair competition which article 10*bis* of the Paris Convention exists to protect against" and that because plaintiff's trade dress is well known plaintiff was likely to prevail under Article 6*bis* as well.

Likewise, in Benard Indus. Inc. v. Bayer Aktiengesellschaft, 38 U.S.P.Q.2d 1422 (S.D.Fla. 1996), the court permitted a plaintiff to proceed on claims under each of Section 43, the unfair competition provisions of the Paris Convention, and the equivalent provisions under the Pan American Convention. The Court concluded, citing *Scotch Whisky Association*, that the Paris Convention "may well cover acts of unfair competition beyond those related to the unfair use of trademarks" and "because Bayer alleges multiple factual bases for its claim of unfair competition, including infringement and false advertising and use of trade dress, the reasoning in *Scotch Whisky* does not persuade the Court that it is beyond a doubt that Bayer can prove no set of facts which would entitle it to relief under the Conventions." What did the section 44 claim add to the plaintiff's position in either of these cases? In what circumstances would a plaintiff prevail under section 44 but lose under section 43?

Similarly, in Davidoff Extension S.A. v. Davidoff Int'l, Inc., 612 F. Supp. 4 (S.D.Fla. 1984). The plaintiff was a Swiss corporation that had registered its trademark DAVIDOFF for high quality cigars with the U.S. PTO. The principal of the plaintiff corporation, Zino Davidoff was a worldwide known personality in the tobacco industry and has achieved extensive press media coverage and also published a book on cigars. The defendant (Hoffman) began producing generic cigars using the Davidoff name. The defendant defended suit by the plaintiff by arguing that the plaintiff had not used its name or its products in the United States. The court rejected this claim, but also noted that the plaintiff had registered the mark DAVIDOFF in Switzerland (a Paris Union country). Noting both that it viewed the Paris Convention as self-executing, and that Section 44 of the Lanham Act explicitly implements the Paris Convention, the court listed "three benefits" that the Convention conferred on plaintiff:

> (1) Plaintiff may obtain a U.S. registration of its trademark "Davidoff" for tobacco products, smokers' articles, etc. without alleging use of its trademark in the United States because plaintiff has a Swiss trademark Registration for its trademark: Lanham Act § 44(c), (e); Paris Convention Article 6*quinquies* . . .;
>
> (2) Plaintiff's trade name is to be protected without the obligation of any filing or registration: Lanham Act § 44(g); Paris Convention Article 8; and
>
> (3) Plaintiff is to be protected from unfair competition: Lanham Act § 44(h); Paris Convention Article 10*bis*. . . .

As a consequence, the court concluded that "defendants' argument that plaintiff is not using its trademark in the United States and that its U.S. Registrations of the trademark were fraudulent appears inconsequential." Does this reasoning suggest that a claim under Article 10*bis* might not require domestic U.S. use by a

plaintiff? Assuming that the Swiss company in *Davidoff* had not used the DAVIDOFF mark in the United States (and the court appeared willing to decide in favor of the Swiss company even if such use had not been proved), what differentiates the conduct of Mr. Hoffman in *Davidoff* from that of Mr. Christman in *Person's*?

(iii) National Treatment

Application of the national treatment obligations of Article 2 of the Paris Convention, implemented in section 44(b) of the Lanham Act should be straightforward. *See e.g.*, *Schweitzer Dict Co. v. P&K Trading Inc.*, 1998 WL 472505 (E.D.N.Y. 1998) (because South Korea is a signatory to the Paris Convention, its nationals may assert the protections of the Lanham Act). Indeed, the inclusion of a provision guaranteeing national treatment was largely uncontroversial in 1883, having even then formed part of several existing industrial property conventions. Nationality is not, however, the only connecting factor that generates national treatment. Others are assimilated to nationals of member states. *See* Article 3 ("Nationals of countries outside the Union who are domiciled or who have real and effective establishments in the territory of one of the countries of the Union shall be treated in the same manner as nationals of the countries of the Union"). What are the consequences of expanding the "connecting factors" that permit enjoyment of the benefits of the Union? Are there any reasons why you would recommend contraction (or further expansion) of the connecting factors?

(iv) Mechanisms Facilitating Multinational Rights

SCM CORPORATION v. LANGIS FOODS LTD.,
539 F.2d 196 (D.C. Cir. 1976)

Opinion for the court by Circuit Judge McGOWAN.

This case presents the issue whether a corporate foreign national, which has applied for a trademark registration in its home country, has priority in registering that trademark in the United States over a domestic corporation when: (1) the foreign national filed a trademark application in its home country without prior use of the trademark in any country; (2) the foreign national subsequently filed a timely application to register the trademark in the United States based upon the earlier application in its home country; (3) the foreign national used the trademark in its home country, but not in the United States prior to filing its United States application; and (4) the domestic corporation used the trademark in the United States after the foreign national's home country application was filed but before the foreign national's United States application was filed. The District Court concluded that the domestic corporation was entitled to registration of the trademark. [cit]. For the reasons set forth below, we reverse.

I.

On March 28, 1969, appellant Langis Foods, a Canadian corporation, filed applications to register three trademarks in Canada APPLE TREE, ORANGE TREE, and LEMON TREE. Shortly thereafter, on May 15, 1969, Langis used these marks in Canada.[30] [Ed. Note: In 1988, the United States amended its trademark statute to permit "intent-to use" applications, modeled in large part upon the Canadian provisions.] Appellee SCM Corporation, a domestic corporation, apparently started to use the LEMON TREE trademark [for a beverage product similar to that sold by Langis] in this country on the same day. Both Langis and SCM subsequently applied to the United States Patent Office to register these trademarks: SCM's application, filed on June 18, 1969, requested registration of the LEMON TREE trademark; Langis's application, filed on September 19, 1969, requested registration of three trademarks LEMON TREE, ORANGE TREE, and APPLE TREE. While these applications were pending in the Patent Office, SCM began using the marks ORANGE TREE and LIME TREE in the United States in June of 1970, and on July 22 of that year applied to the Patent Office to register those marks.

In August of 1971, the Patent Office published Langis's trademarks APPLE TREE and ORANGE TREE in its "Official Gazette" for purposes of opposition. Two months later, the Office issued a registration to Langis for the trademark LEMON TREE. SCM Corporation then instituted oppositions to the APPLE TREE and ORANGE TREE applications, and also filed a petition to cancel the LEMON TREE registration. On May 7, 1973, the Trademark Trial and Appeal Board denied the petition to cancel and dismissed the oppositions on the ground that, pursuant to section 44(d) of the Trademark Act of 1946, "(Langis) is entitled herein as a matter of right to rely upon the filing dates of its Canadian applications, i.e., March 28, 1969, and hence that it possesses superior rights in its marks as against (SCM)." [cit].

SCM then filed a complaint in the District Court seeking to have the LEMON TREE registration canceled and the APPLE TREE and ORANGE TREE registrations denied. The District Court granted SCM's motion for summary judgment on the ground that "prior right in a trademark in the United States depends on priority of use in the United States and is not affected by priority of use in a foreign country." [cit]. Since Langis used the marks in Canada but not in the United States, the court canceled the LEMON TREE registration and remanded the proceedings opposing ORANGE TREE and APPLE TREE to the Board.[31] This appeal is taken from that final order.

II.

Appellee SCM directs our attention to section 2(d) of the Trademark Act of 1946, which appears to preclude registration of the disputed trademarks by Langis. That section provides that "[n]o trade-mark . . . shall be refused registration on the principal register on account of its nature unless it (d) Consists of or comprises a mark which so resembles . . . a mark or trade name *previously used in the United States by another* and not abandoned, as to be likely, when applied to the goods of the applicant, to cause confusion, or to cause mistake, or to deceive . . . ." *Id.* (emphasis added). Langis has admitted that SCM was the first to use the marks in the United States, and nowhere suggests that SCM has

abandoned them. Therefore, SCM argues, section 2(d) is "*in haec verba* a complete bar to Langis obtaining or maintaining registrations for its marks." [cit].

This argument must, however, be evaluated in light of legislative attempts to reconcile differences between the American and foreign systems of trademark registration. In the United States, federal registration under the Lanham Act is generally based upon first use. *E.g.,* §§ 1051(a)(1), 1127. Canada, however, employs a system which allows registration of a trademark without prior use. *See* note 2 *supra*. Certain provisions of the Lanham Act were designed to provide some protection to trademarks already registered elsewhere by foreign nationals, and Langis relies for protection specifically on section 44(d), which provides in relevant part that a trademark registration application filed by a foreign national "shall be accorded the same force and effect as would be accorded to the same application if filed in the United States on the same date on which the application was first filed in (the) foreign country. . . ." *Id.* § 1126(d).

Both SCM and Langis recognize that section 44(d) protects trademarks for which registration applications have first been filed in a foreign country. The dispute in this case goes only to the precise scope of that statutory protection. SCM contends that section 44(d) gives a foreign applicant a *constructive filing date* in the United States as of the date of the foreign filing; the filing date is important because the party with the later filing date bears the burden of proving that it possesses the prior right to the mark. [cit]. SCM would concede that it had the burden of proof in this proceeding with respect to the right to register LEMON TREE since its actual filing date was subsequent to Langis's "constructive filing date" of March 28, 1969. The District Court accepted this view of section 44(d), and since Langis admitted that it had not used the mark in the United States, granted summary judgment for SCM.

Appellant Langis offers a second and, in our view, more plausible interpretation of section 44(d). Langis suggests that section 44(d) grants a foreign applicant which has used the trademark in its home country *after* the foreign filing but *prior* to the actual United States filing a *constructive use date* as of the date of the foreign filing. Under this view, Langis would have priority since its constructive use date of March 28, 1969 preceded SCM's actual use date of May 15, 1969.

We think the structure of the Lanham Act reinforces Langis's interpretation of section 44(d). In the first place, section 1 of the Act requires an applicant for registration to indicate the date the trademark was first used in commerce in the United States; but foreign nationals applying pursuant to section 44(d) are exempted from that requirement, 15 U.S.C. § 1126(d)(2). Moreover, the 1946 Act deals specifically with the protection to be accorded to rights acquired by third parties, and it expressly protects only those "rights acquired by third parties before the date of the filing of the first application in the foreign country . . . ." *Id.* § 1126(d)(3). The Lanham Act also provides that nothing in section 44(d) "shall entitle the owner of a registration granted under . . . section (44) to sue for acts committed prior to the date on which his mark was registered in this country unless the registration is based on use in commerce." *Id.* § 1126(d)(4) (emphasis added). The clear implication is that section 44 recognizes registration based on something other than "use in commerce," namely, a foreign

registration. *See id*. § 1126(e).

Finally, there is section 44(b) of the Act, which provides:

> Any person whose country of origin is a party to any convention or treaty relating to trademarks, trade or commercial names, or the repression of unfair competition, to which the United States is also a party, or extends reciprocal rights to nationals of the United States by law, *shall be entitled to the benefits of this section under the conditions expressed herein to the extent necessary to give effect to any provision of such convention, treaty or reciprocal law, in addition to the rights to which any owner of a mark is otherwise entitled by this chapter*.

Id.. § 1126(b) (1970) (emphasis added); *see id.* § 1126(c), (e). This intent to give effect to the provisions of applicable treaties and conventions concerning trademarks is further evidenced in section 45 of the Act, which declares that the intent of Congress in enacting the 1946 Act was "to provide rights and remedies stipulated by treaties and conventions respecting trade-marks . . . ."[32] *Id*. § 1127. An examination of the relevant international treaty the International Convention for the Protection of Industrial Property (the Paris Union Treaty) resolves whatever doubt we may have concerning the reach of section 44(d).

As revised in London in 1934, Article 4 of the Paris Union Treaty provides:

> A. (1) Any person who has duly applied for . . . the registration of a . . . trade mark in one of the countries of the Union . . . shall enjoy for the purposes of registration in other countries a right of priority during the periods hereinafter stated (six months for trademarks).
>
> (2) Any filing having the value of a formal national filing by virtue of the internal law of each country of the Union or of international treaties concluded among several countries of the Union shall be recognized as giving rise to a right of priority.
>
> B. Consequently, *subsequent filing in one of the other countries of the Union before the expiration of these periods shall not be invalidated through any acts accomplished in the interval, as, for instance, by another filing, . . . or by use of the trade mark, and these facts cannot give rise to any right of third parties or any personal possession. The rights acquired by third parties before the day of the first application on which priority is based shall be reserved by the internal legislation of each country of the Union*.

53 Stat. 1748, T.S. 941 (emphasis added). This revised version clearly provides that an intervening use during the priority period cannot give rise to rights on the part of third parties. The only rights of third parties specifically protected are "[those] rights acquired by third parties *before* the day of the first application on which priority is based."[33] Although this version of Article 4 specifically provided that a subsequent filing could not be invalidated through any acts accomplished during the period of

priority, including another filing or use of the mark, the fact that the Article also subjected the right of priority to the "rights of third parties" left some doubt as to whether that exception applied only to rights in a mark acquired prior to the foreign filing date or whether the exception in effect accorded protection to third party rights acquired after the foreign filing date. That ambiguity was clarified in the 1934 revision at London, which was ratified by the United States in 1938. 53 Stat. 1748, T.S. 941. Thus, to the extent that the property rights in this case depend on the Paris Union Treaty, Article 4 reinforces our conclusion that a foreign applicant's mark must be protected in this country from the date of the foreign application even as against an intervening first use by another in the United States. [cit].

III.

Our holding in this case is that section 44(d) of the Trademark Act of 1946, which implements Article 4 of the Paris Union Treaty, accorded appellant Langis a "right to priority" for the six months following the filing of its Canadian application for registration, that is to say, from March 28, 1969 to September 27, 1969; and that an intervening use in the United States during that period cannot invalidate Langis's right to registration in this country pursuant to an application filed on September 19, 1969.[34] In the de novo proceeding below, the District Court reviewed the Paris Union Treaty and the Trademark Act of 1946 and concluded that "(t)he decision of the Board . . . which reverts to the "*Merry Cow*" doctrine . . . is . . . in error." [cit]. In this respect, the opinion of the District Court is dictum. The record in the District Court clearly indicates that the applications filed by Langis with the Patent Office alleged use of the marks in Canada, during the applicable six month period, and there was thus no reason for the District Court to rule on the *Merry Cow* issue. The fact that the Trademark Trial and Appeal Board found it necessary to reach that question given its misstatement of the facts does not mean that, despite a record indicating to the contrary, the question was presented to the District Court. Appellee SCM contends that the "*Merry Cow*" issue is not presented by this case, and we agree. We recognize that section 2(d) prohibits registration of a trademark "previously used in the United States by another," but we cannot read that section in isolation from the context of the rest of the statute. . . . Our task is to endeavor to harmonize and give full effect to both sections 2(d) and 44(d). . . . We need only interpret the word "previously" in section 2(d) to mean "before the filing date in the Convention country" in order to give meaning to both statutory provisions. As our earlier discussion indicates, both the structure of the Act and its legislative history support such an interpretation.

Since in our view Langis is entitled to a valid federal trademark registration, we reverse the decision of the District Court and remand the case with directions to dismiss the complaint.

CROCKER NAT'L BANK v. CANADIAN IMPERIAL BANK OF COMMERCE

223 U.S.P.Q. 909 (T.T.A.B. en banc 1984)

Opinion by Allen, Member:

Before us is a motion for summary judgment brought by opposer Crocker National Bank (hereinafter, Crocker), [owner of the mark COMMUNICASH] in an opposition against registration of the mark "COMMCASH" for "banking services," subject of an application filed by Canadian Imperial Bank of Commerce (hereinafter, Canadian Imperial), pursuant to Section 44 of the Lanham Trademark Act. The sole ground of the [present] motion is that the application for registration is void ab initio in that no allegation of use somewhere on or before the filing date of the United States application has been made and no specimens demonstrating such use have been provided.* We deny the motion on the basis that both of these requirements are inconsistent with the International Convention of Paris for the Protection of Industrial Property[35] as it has been implemented by Section 44 of the Trademark Act[36] and need not, for that reason, be complied with. We also find that Canadian Imperial, the non-moving party, is entitled to partial summary judgment on the same issue and dismiss the part of Crocker's claim which is based on the above ground.

. . . The . . . present motion [argues] . . . that "[a]pplicant's application does not allege use of the mark COMMCASH," "that the failure of such application to allege use of the mark anywhere" is not in compliance with Section 1 of the Trademark Act, and that, therefore, "the application is void ab initio and the applicant is not entitled to registration of its mark on such application." . . .

. . .

The principal issue presented herein was previously the subject of a decision of this Board, widely known in the trademark literature as the LEMON TREE case. [*SCM*]. In LEMON TREE, the Board unanimously decided that there was nothing in the Trademark Act authorizing the Office to require "of a foreign applicant under Section 44(d) use of its mark prior to the filing of its application in [its] home country," and that to require a showing of such use was inconsistent with the Paris Convention by which Canada, the country of origin of the applicant in the case, and the United States are bound. We also held in that decision that the Canadian applicant was entitled to rely upon the filing dates of the corresponding Canadian applications which were filed less than six months before the United States application was filed, which finding determined the issue of priority in favor of the Canadian applicant. The Board's decision on the priority issue was eventually affirmed by the Court of Appeals, District of Columbia Circuit. However, the ruling concerning the requirement to demonstrate use somewhere was not decided. In that regard, both the Board's holding that the requirement was contrary to law and the reversal of that holding by the District Court for the District of Columbia in the de novo proceeding were held to be dicta because the records in both our and the District Court's proceeding clearly indicated that the Canadian applicant had, in fact, used the involved marks in Canada prior to the filing date of the United States applications therefor.

. . . [I]n order to reach the conclusion that the aforementioned filing date requirements for foreign applicants under Section 44 are contrary to the statute, we find it necessary to overrule *Certain Incomplete Trademark Applications* 137 U.S.P.Q. 69 (Com'r Pats. 1963). . . . However, before reaching that point in our analysis, in view of the uncertain history of the Office position on this issue over many, many years, we set forth below the facts, established on this record, upon which our decision depends.

On November 10, 1980, Canadian Imperial filed in the Canadian Trade Marks Office an application for registration of the mark COMMCASH in respect of "banking services." This application was based on proposed use of the mark sought to be registered in Canada.[37] Within six months of the Canadian filing, namely, on May 7, 1981, Canadian Imperial filed an application in the United States Patent and Trademark Office seeking registration of the identical mark for identical services. The United States application was filed pursuant to Section 44(d) of the Trademark Act in view of the previously filed Canadian application. On the face of the United States application, it is unmistakably clear that Canadian Imperial had not used the mark sought to be registered on or prior to the U.S. filing date.

. . . There is no other evidence before us which is inconsistent with that conclusion. Accordingly, Canadian Imperial's opposition to the motion for summary judgment wholly depends on our decision herein that the requirement for an allegation of use somewhere on or prior to the U.S. filing date and the requirement of specimens demonstrating such use are contrary to law.

The starting point of our analysis is the decision of the D.C. Circuit Court of Appeals in *SCM Corporation v. Langis Foods, Ltd*. While, . . . SCM does not specifically determine the issue before us, the unanimously supported opinion of Judge McGowan in that case announced or confirmed several principles in regard to section 44 and the Paris Convention which must be considered in our analysis and determination of the present case. These principles are set forth below in a form which relates the SCM principles (verbatim text) to the issue now before us.

(i) Recognizing that the Trademark Act requires an applicant who is the owner of a trademark used in commerce to specify "the mode or manner in which the mark is used in connection with [the] goods" (1(a)(1)) and to submit "specimens or facsimiles of the mark as actually used" (§ 1(a)(3)), we cannot read these sections in isolation from the context of the rest of the statute. Our task is to harmonize and give effect to both sections 1 and 44(c), (d) and (e). [cit.]

(ii) The argument that § 1 of the Act renders void any application filed by a foreign applicant under § 44 which does not contain an allegation of use somewhere of the mark sought to be registered or is not accompanied by the prescribed specimens or facsimiles must be evaluated in the light of legislative attempts to reconcile differences between the American and foreign systems of trademark registration. [cit.]

(iii) The clear implication [from §§ 44(d)(2), (d)(3) and (d)(4)] is that section 44 recognizes registration based on something other than "use in commerce", namely, a foreign registration. See [15 U.S.C.] § 1126(e)." [cit.]

(iv) In that the clear intent of section 44 was to give effect to the provision of applicable treaties and conventions concerning trademarks . . . an

[e]xamination of the relevant international treaty—the International Convention for the Protection of Industrial Property [as revised in London in 1934]—is necessary to resolve whatever doubt we may have concerning the reach of section 44(d). [cit.]

(v) [T]o the extent that the property rights in this case depend on the Paris Union Treaty, Article 4 reinforces our conclusion that a foreign applicant's mark must be protected in this country from the date of the foreign application even as against an intervening first use by another in the United States. To this end section 44(d) grants a foreign applicant . . . a constructive use date as of the date of the foreign filing.

The viability of the above principles in interpreting Section 44 issues has been confirmed, without any known dissent, in commentaries on the decision by text writers and authors of subsequently published law review articles.

Statutory Construction

Guided by SCM principle (i), and by decisions of other federal courts concerning statutory construction of the Trademark Act, we conclude that the rationale applied in early Office decisions on the issue before us, and in *Certain Incomplete*, was seriously flawed. Under these decisions, the holding that use of a trademark somewhere and the submission of specimens evidencing such use continued to be required of § 44 applicants was based on the proposition that all trademarks registrable under the Act had to comply with each of the requirements of section 1, except those which were specifically exempted in section 44. According to this narrow construction, while exemptions were found in section 44(c) (*British Insulated*) and in section 44(d) (*Certain Incomplete*) for the allegation of use in commerce, no exemption was found for the requirement of specimens or facsimiles of the marks as actually used or for the statement of the mode, manner or method of applying or affixing or otherwise using the mark on or in connection with the goods. This analysis made no effort to harmonize the non-Convention sections with section 44 (SCM principle (i)) or to interpret the statute so as to reconcile differences between the American and foreign systems of trademark registration (SCM principle ii)). To the contrary, the decisions tried to force everything in section 44(c), (d) and (e) into the framework of section 1 of the Act, apparently motivated by the desire to preserve in the registration system as much of our common law notion that a trademark is a creature of use and cannot exist without it as section 44 and the Paris Convention would permit, and by a reluctance to give foreign proprietors of marks a status under that section more favorable than that given domestic owners under non-Convention provisions.

Even without any reference to the legislative history of the Trademark Act of 1946 or to the purposes of the Paris Convention which Section 44 was enacted to implement, these interpretations present inconsistencies which are apparent from the structure of the Act itself and an evaluation of its sections "to produce a harmonious whole."

Firstly, it should be noted that there are no references in Section 44 to "use somewhere," nor to the requirement of specimens, nor to mode of use. As to this point, the argument has been that the requirements of Section 1 apply to

foreign nationals registering under Section 44 through incorporation by reference. Thus, section 44(d) refers to "an application for registration of a mark under sections 1 . . . etc. . .," and Section 44(e) necessarily incorporates the same requirements by its use of the phrase "the Principal Register if eligible . . .". Implicit in this argument is that Section 44 does not provide an alternative means of acquiring trademark rights; hence, Section 1 applies equally to domestic applicants and foreign applicants filing under Section 44. However, to conclude that Section 1 is applicable to Section 44 applicants except for those requirements specifically exempted, is inconsistent with Section 1 which, by that section's very terms, is limited to an applications filed by "the owner[s] of . . . trademark[s] used in commerce." Obviously, when a foreign applicant under Section 44 has elected to take advantage of the "use in commerce" exemption,[38] use of the trademark in commerce is not involved. For this reason, the notion that Section 1 must apply in its entirety to both foreign and domestic applicants is specious.

Secondly, because of the language of section 44(d)(2), the determination that only the use in commerce allegation is exempted does not give effect to the remaining words of this paragraph, *i.e.*, the proviso "that the application conforms as nearly as practicable to the requirements of this Act," which . . . we must do even under ordinary rules of statutory construction. Thus, had the "use in commerce allegation" been the only exemption intended, there would have been no reason for the first phrase. Accordingly, giving effect to each part of the statute, it is presumed that Section 44(d)(2) was also intended to exempt other conditions which the Section 44 applicant could not, from a practicability standpoint, conform to. In *Certain Incomplete*, analysis of this part of the subsection is disposed of merely by the statement that compliance with the requirements for specimens and allegations relating to the manner in which the mark is used on the goods is not impracticable, without any further explanation. . . . [T]he *Certain Incomplete* conclusion is unsupportable in that neither of these requirements was practicable for a foreign applicant whose home country does not require use as a pre-requisite of filing, and who had not, for that reason, commenced commercial marketing of his product or service within the six months period between the filing date of the foreign application on which priority is based and the date of filing of a corresponding application in the United States. Hence, to conform to the requirements in most cases required the applicant to effect use of the mark solely for the purpose of the United States application. In this regard, SCM principle (ii) instructs us to evaluate the issue before us in light of the effort to reconcile differences between the American and foreign systems of trademark registration. In 1946, the laws of none of the other countries bound by the Paris Convention or by "The General Inter-American Convention for Trade-Mark and Commercial Protection" (hereinafter, Inter-American Convention), the two multilateral conventions deemed applicable to § 44(c), (d), and (e) cases, required that actual use of the mark be alleged or demonstrated prior to the filing of an application for registration.[39] Accordingly, the foreign entities located in the other countries with which we had treaty obligations were in no position to effect normal commercial use of their marks before filing applications in the United States with valid claims of priority, to which these applicants are also entitled.[40] From this standpoint, it is a short step in statutory construction to conclude that the practicability exception referred to those formal

requirements which were ancillary to the United States pre-filing use requirement, the same logic by which the statements as to dates of first use and first use in commerce were exempted by the Rules of Practice for such applicants. Trademark Rule 37 CFR § 2.39(a).

For the above reasons, we reject the analysis in *Certain Incomplete*, *British Insulated* and other cases applying the narrow construction that the provisions of Section 1 must prevail except for the specifically named "use in commerce" requirement. This conclusion, of course, leaves for decision the question of what other interpretations are possible which are consistent with the *SCM* principles. There are, at least, two other possibilities: first, that the statute as a whole must be interpreted to exempt all requirements outside of section 44 relating to use prior to the filing of an application in the United States by a foreign applicant qualified under Section 44(b) because such requirements are not practicable for this class of applicants; or, second, that Section 44 is an independent provision, standing on its own feet with respect to applications for registration depending upon it and the conventions as the bases for United States registration, except for such formal requirements and conditions for registration as are consistent with the purposes of the conventions and the implementing statute.[41] While the first alternative follows logically from what we have already said, the second depends upon an analysis of the treaty and the legislative history of the statute.

Paris Convention

Our starting point is the Paris Convention, and in particular, for reasons already stated, the London text of that convention. SCM principle (iv). We are here concerned primarily with Article 6, the relevant parts of which (in English translation) are reproduced below.

ARTICLE 6

> A. Every trade-mark registered in the country of origin shall be admitted for registration and protected in the form originally registered in the other countries of the Union under the reservations indicated below. . . .
>
> B. (1) Nevertheless, the following marks may be refused or canceled:
>
> 1. Those which are of such a nature as to prejudice rights acquired by third parties in the country where protection is applied for.
> 2. Those which have no distinctive character, or which consist exclusively of signs or indications which serve in trade to designate the kind, quality, quantity, destination, value, place of origin, or time of production, or which have become customary in the current language, or in the bona fide and unquestioned usages of

> the trade in the country in which protection is sought. In arriving at a decision as to the distinctiveness of the character of a mark, all the circumstances of the case must be taken into account, and in particular the length of time that such a mark has been in use.
>
> 3. Those which are contrary to morality or public order, especially those which are of a nature to deceive the public. It is to be understood that a mark cannot be considered as contrary to public order for the sole reason that it does not conform to some legislative requirement concerning trade-marks, except in circumstances where this requirement itself relates to public order.
>
> (2) Trade-marks cannot be refused in the other countries of the Union on the sole ground that they differ from the marks protected in the country of origin only by elements not altering the distinctive character and not affecting the identity of the marks in the form under which they have been registered in the aforesaid country of origin. (Emphasis supplied to show the original 1883 text.)

There is no question that an unvarnished reading of Article 6 cannot justify excluding the registration or protection of a mark registered in the country of origin based upon the failure of the foreign applicant to comply with the requirements pertaining to use of the mark either in the United States or elsewhere. A straightforward analysis of Article 6 is set forth in Mrs. Leeds' decision in *Fromageries Bel*, at 102 U.S.P.Q. 398:

> Reduced to its simplest form, Article 6 merely means that when a registration of a mark has issued in an applicant's home country ("country of origin") in accordance with the law of that country, the United States Patent Office will, upon receipt of a properly executed application, a copy of the home registration, a drawing of the mark, and the filing fee, accept the foreign registration at face value and issue a registration in the United States, unless the mark infringes rights previously acquired by another, or it has no distinctive character, or is contrary to morality or public order.

In *Certain Incomplete*, the above analysis is challenged and, by that decision, overruled, based on an interpretation of Article 6 in a footnote which spans four pages of the opinion, 137 U.S.P.Q. 72-75, note 8. The primary argument in Certain *Incomplete* is that the intention of Article 6 of the Paris Convention was "to deal only with the form or nature of the mark itself." *Id.* This argument breaks down into three parts: first, that the only object of Article 6 is the so-called "telle quelle" principle, *i.e.*, having to do with the form or character of the mark rather than the conditions and requirements for registration; second, that Article 6 has no application whatsoever to a mark sought to be registered in a country (*i.e.*, the United States), under whose law a mark cannot be a trademark unless it has been used in trade in connection with particular goods; and third,

that the requirements pertaining to use somewhere are formal requirements which are not intended to be excluded as grounds for refusal by Article 6. Based on our interpretation of the treaty and its history, we conclude that none of the above arguments justifies imposition of the filing requirements herein imposed.

"telle quelle"

An essential element of this part of the argument, which encompasses the greater part of *Certain Incomplete's* lengthy footnote 8, is that paragraph B of the Article is only concerned with the form or nature of the mark. . . . Several examples are given, *i.e.* words written in the particular alphabetic characters of the language of the country (*e.g.* the Slavic Cyrillic alphabet), containers for products or configurations of goods, word trademarks containing more than a certain number of letters, etc. The readily apparent problem with this argument is that some of the grounds have nothing whatsoever to do with the form or nature of the mark and others are only remotely related. This is best illustrated by the very first ground of refusal under paragraph B of Article 6 which is akin to section 2(d) of our Trademark Act. It goes without saying that the likelihood of confusion of purchasers due to a mark's similarity with the mark of another which is registered or has been previously used is an extrinsic ground having nothing to do with the mark's intrinsic form or nature.

An even more extreme view is that paragraph B in its entirety is applicable only to marks which are also questioned because of their form or nature. According to this position, a mark in the Cyrillic alphabet would have to be accepted unless it could also be refused because it would prejudice the rights of others, or was not distinctive, etc., but all other marks (*e.g.*, a transliteration of the Cyrillic term into Arabic characters) could also be refused on any other ground applicable to nationals of the concerned country.

It is conceded that some countries may have thought that Article 6 had such a limited scope when it was originally conceived and much of the argument in *Certain Incomplete* reverts back to this original text, the substance of which was restricted to the portion of Article 6 which we have emphasized in the above cited English language translation. Thus, in its inception, the first sentence of the Article was the same as it is now but the only reservation concerned refusal of registration of trademarks contrary to morality or public order. Even as to that text, the viewpoint expressed in *Certain Incomplete* is only one of the interpretations which were debated at length in international governmental and non-governmental circles in the decade which followed its promulgation.[42] During these debates, there were two widely divergent interpretations of Article 6. On the one hand the position of France, also supported by countries whose trademark laws were influenced by civil law concepts, was that the article binds the countries to grant protection to a mark duly registered in the country of origin even if it did not properly constitute a trademark according to the domestic law of those countries. On the other hand, the position of Great Britain, shared also by Switzerland and others, was that the article only excluded refusal of protection of a mark registered in the country of origin on account of its external form except if registration would constitute an offense against public order within its own boundaries.

Nowhere was the matter of use involved in these discussions and there was little active participation on the part of the United States.[43] In fact, the focus of the debate centered on the very strict British prohibition against the registration or protection of non-distinctive signs. Interestingly, one of the cases in point concerned an American trademark SYRUP OF FIGS which had been sought to be registered by its United States owner in Great Britain under the Paris Convention based upon an 1885 registration of the mark in the United States. The High Court of Justice (Chancery) affirmed the refusal of registration, refusing to apply Article 6 of the Convention since that article had only been implemented in the British Trademarks Act of 1883 as to marks for which application had been made during the period of priority in Article 4 of the same Convention. The court conceded that under the Convention the mark ought to have been registered and that it would have been registered had the application been filed during the priority period, since that aspect had been implemented.[44] This decision and others were used to illustrate the broad scope which had been contemplated by Article 6. On the other hand, opponents of this view were adamant in the opposite viewpoint, generally supported by the contention that Article 6 should not be applicable to terms like SYRUP OF FIGS which were not, in fact, trademarks at all, or, alternatively, that the registration of such terms would be contrary to morality or public order. Eventually, there emerged several schools of thought as to how this impasse should be overcome. One view was that there should be an internationally accepted definition of a trademark acceptable to all parties to the Paris Convention. This solution would have preserved the French view of Article 6, establishing a truly international system of trademark protection based on a country of origin registration.[45] The other more practical view was to expand the "morality or public order" reservation to encompass other grounds of national refusal. In the subsequent development of the Convention through its revisions in 1911 at Washington, in 1925 at The Hague, and in 1934 at London, the latter solution became the basis of paragraph B of Article 6. Thus, whereas there may be some doubt as to the original intention of Article 6, its generally accepted meaning in 1946 when the Lanham Act was enacted by the Congress was that paragraph B of the article extended far beyond the "telle quelle" principle in paragraph A, establishing a minimum standard for all member countries as to what grounds for refusal of registration of any mark duly registered in the country of origin can be imposed by the other countries.[46] Had the United States entertained serious reservations as to such interpretation, it is reasonable to assume that that position would have been put forward by United States delegates at the several international conferences held between Paris in 1883 and London in 1934, or that limitations on the effects of Article 6 in our trademark legislation would have been proposed in connection with the ratification of those treaties. In fact, no such positions were put forward or legislative proposals advanced. We also find no reference in Article 6B to the possibility of refusal of registration or protection on the ground that the mark has not been used somewhere prior to the application for registration and at none of the conferences referred to was that possibility proposed by the United States or any other country.[47]

A Mark That Has Not Been Used In Trade Is Not A Trademark

There is nothing in the Convention history (and *Certain Incomplete* does not contend that there is) which supports this argument and it appears to rest solely on the statement in that decision as to the (common law) concept of trademark rights in the United States. [cit.] From the standpoint of the Convention, there is no question that acceptance of the thesis that a country can avoid the proscriptions of Article 6 merely by a definitional exclusion of the entire article destroys its effect altogether. This aspect of *Certain Incomplete* depends on an interpretation of Article 6 which contradicts its very essence. As in the case of Article 4, Article 6 is one of those provisions of the Paris Convention which guarantee rights to persons assimilated to its benefits beyond those accorded by the "national treatment" principle.[48] Accordingly, it is not possible to justify a refusal to accord such effects merely by carving out an exception (*i.e.*, the requirement that only a used trademark can be registered) which is applicable to one's nationals. The same position was asserted long ago by Great Britain to justify the refusal to accord any effect to the original text of Article 6 where the mark was non-distinctive or generic, since the French position did not consider such marks capable of refusal unless the terms comprising them were immoral or contrary to public order. In fact, the resulting impasse was one of the reasons which impelled broadening of the grounds of refusal in the second part of Article 6 during subsequent revision conferences. More significantly, such interpretation has been specifically condemned by the United States Supreme Court in *Bacardi*, construing the very similar language in Inter-American Convention's Article 3.[49]

Formal Requirements

While no express reference to national formal requirements imposed on applicants relying upon their home country registrations appeared in Article 6 until the Lisbon text of 1958, to which the United States is bound, but Canada is not, there is little question that the article has always been understood as not excluding them.[50] On the other hand, formalities imposed by the countries as a means of avoiding the substantive effects of the article have long been condemned. The question of treaty interpretation then is whether the required allegation of use somewhere and of specimens demonstrating such use are in one category (acceptable formalities and conditions of domestic law) or the other (means of avoiding the substantive effects of Article 6B).

It is in the first instance clear that both requirements are creatures of Office decisions concerning applications filed by applicants claiming the benefits of the convention rather than statutory provisions or rules which relate to all applicants for registration. The specimens of actual use are and always have been in reference to the use in commerce requirement rather than use in trade which is outside the control of Congress. In *Certain Incomplete* it appears to have been presumed (there being no discussion of the matter) that in the case of a foreign applicant filing under Section 44 of the statute, the specimens to be supplied would demonstrate use of the foreign applicant's mark "in trade" somewhere rather than in commerce subject to the control of Congress. This is an adaptation of the rule to foreign applicants filing under § 44 based on a decisional interpretation in *Certain Incomplete* (as it was in 1949 in *British*

Insulated) rather than a mere application of "filing requirements . . . also required of national applicants for registration," as *Certain Incomplete* contends at 137 U.S.P.Q. 75. The required allegation of use is also appurtenant to use in commerce, derived from the Section 1 requirement that the applicant indicate the mode or manner in which the mark is used in connection with the goods. [cit]. The statement of mode of use is provided for in the standard domestic application forms in the same sentence in which the specimens demonstrating use in commerce are referred to.

That these requirements are necessary to evidence ownership of the mark subject of the country of origin registration is also, from the standpoint of the Convention, not supportable. In the United States, it is not just use of a mark which establishes common law ownership rights in a trademark but use by one whose right to use is superior to the right of another to use the same or a confusingly similar mark in this country. However, from the treaty viewpoint, ownership of the mark subject of the country of origin registration, which is the basis of the § 44(c) and (e) registration, is determined under the "telle quelle" principle according to the law in the country of origin, not the country of subsequent filing based on that registration.[51] The best evidence of ownership of a trademark in most countries is a registration of the mark, not evidence of its use. It should also be noted notwithstanding the clear implication to the contrary in *Certain Incomplete,* at 137 U.S.P.Q. 74, note 8, that specimens of use of a mark sought to be registered are not among the conditions and requirements for obtaining a registration in any country in the world except the United States and the Philippines.

In consideration of the above points, we disagree with the conclusion that the two requirements imposed herein are justified under Article 6 of Paris Convention (London text) on the ground that they are formalities generally applicable to all applicants under the statute.

The reference in *Certain Incomplete* to the fact that a new provision was added to Article 6 at the Lisbon Conference to clarify the applicability of national requirements to Article 6 cases does not alter our conclusion. In the new clause (paragraph (1) of new Article 6) the point was reiterated that the conditions and requirements for registration in each of the countries have to be fulfilled. However, it is the London text which must govern our interpretation of Article 6 in the case which is before us . . . Moreover, even were we to have before us a case governed by the subsequent Lisbon or Stockholm texts of the Paris Convention, the addition of this clause cannot be considered to have made a significant change as far as construction of the treaty is concerned. In both of these subsequent versions (Lisbon, Article 17; Stockholm, Article 25) the countries undertook to adopt measures necessary to ensure the application of the convention and that, at the time of deposit of instruments of ratification or accession, they would be in a position under their domestic laws to give effect to its provisions. The United States did, in fact, introduce legislation to implement the Lisbon text, including an amendment to the very same subsection involved herein, *i.e.*, § 44(d) of the Trademark Act. However, the amendment submitted was in no respect related to requirements and conditions for registration, or the clarifying effect of paragraph (1) as to these matters. When the implementing legislation for the Lisbon text was considered by the Congress, officials of the

Department of State, the Department of Commerce, and this Office represented by testimony and written statements that no other legislative changes were necessary to bring the domestic law of the United States into conformance with the provisions of the convention.

In that no legislation was introduced to clarify our understanding of the interpretation of this new provision of the Lisbon text, it can be presumed that no amendment to § 44(d)(2) was believed necessary and that our then accepted practice, governed by *Fromageries Bel*, in not requiring any allegations or specimens of use of foreign applicants filing under § 44 was not inconsistent with the Lisbon text. Accordingly, the argument to the contrary subsequently made in *Certain Incomplete,* which overruled *Fromageries Bel* in March, 1963 (following ratification of the Lisbon Act) that the Lisbon text justifies the two requirements is not persuasive.[52]

In view of the above, we find no support for the argument that the requirements imposed herein are justified as formalities. By definition, a formality involves compliance with formal or conventional rules. Here, as we have already indicated, requiring specimens of actual use somewhere excludes an entire class of applic ants domiciled in countries wherein use is not required prior to the filing of trademark application. To suggest that such applicants can simply wait until they are able to comply with the requirement of use somewhere ignores altogether the companion benefit, asserted in the instant case, under Article 4, implemented by § 44(d), *i.e*., the right of priority based upon the foreign applicant's first filing in another country of the Union less than six months prior the United States filing date. Since the interest of the foreign entity in the new mark has already been disclosed to the public by the filing of a trademark application elsewhere, foregoing the right of priority benefit involves the risk of loss of rights in the United States due to the intervening use in this country of the same mark by another (perhaps a "pirate" who has learned about the foreign mark from the data base of a foreign country). Such loss of the right of priority benefit is even more ludicrous in light of the decision in *SCM*, since by that decision the foreign applicant was held entitled by its filing in the foreign country to a constructive use in the United States for purposes of priority of rights.[53]

The Lanham Act

We now turn to the question of whether the purposes of the Paris Convention (Article 6) have been implemented by the Trademark Act of 1946. We conclude that they have, and that the only proper construction of § 44(c), (d) and (e) is that a foreign national qualified under § 44(b) is entitled to an alternative basis for registration of a trademark registered in its country of origin without regard to whether such mark is in use prior to the application's filing date. Based on this interpretation, the two requirements imposed in the instant case, i.e, an allegation of use somewhere and specimens demonstrating such use, are contrary to the statute.

The most important reason for our conclusion is that this interpretation is the only one which is consistent with the Paris Convention (and the Inter-American Convention), which § 44 was intended to implement and we are bound, where there is any doubt, to apply that construction which gives full

effect to provisions of this treaty. That Congress had the power to create an alternative method of acquiring trademark rights in the United States without use is also settled. Under the common law, the property interest in a trademark which provides an owner with its exclusive right to use the mark is based on the owner's use of the mark in connection with a trade or business, and the modification of this common law property right is a power vested in the states. However, it is also clear that the federal treaty power makes it possible for the United States to sign and ratify an international agreement which alters the local law of trademark ownership.[54]

The second reason is that the only other possible substantive reason for the two requirements, *i.e.*, that use unrelated to United States commerce creates a right to register in the United States, would be an even more substantial departure from the common law in that it is totally inconsistent with the well established territoriality principle that use in a foreign country cannot create trademark rights in the United States.[55] It is also almost preposterous to infer that merely by failing expressly to exclude two formalities generally related to use in commerce applications, Congress could have intended such a radical departure from established law. There have been no decisions since which come close to affirming the principle that use in a foreign country establishes ownership rights in the United States.[56]

Thirdly, as it has been construed in *SCM*, (SCM principle (iii)), the above interpretation is the only one which is consistent with § 44(d) in its entirety, particularly when § 44(d)(4) is taken into account. The latter paragraph limits the effect of a registration granted under § 44 in an infringement action to "acts committed prior to the date on which [the] mark was registered in [the United States] unless the registration is based on use in commerce." (Emphasis added.) According to SCM, a clear implication from this paragraph is that § 44 recognizes registration based on something other than 'use in commerce' namely, a foreign registration. Since a civil action based on a federal registration can, in no event, be based on acts prior to the date of its registration, it goes without saying that paragraph (d)(4) must have been added to § 44(d) in order to make clear that § 44 impinges on the common law rights of a trademark owner in the United States only to the extent that an infringement action can be based upon a federal registration secured under § 44. It necessarily follows (*i.e.* if (d)(4) is to have any meaning) that § 44 was intended to provide a basis for registration other than common law use.

The situation is different, of course, where the applicant merely claiming priority pursuant to § 44(d) seeks registration based on use in commerce. In that case, nothing in § 44(d)(4) precludes a common law infringement action based on the use in commerce which commenced on a date between the date of filing in the country on which the claim of priority was based and the United States filing date.

It is significant to note that the court in SCM made specific reference to § 44(e) in concluding that § 44 recognizes a basis for registration other than use in commerce. By this reference, the court recognizes that it is a provision outside § 44(d), *i.e.*, § 44(e), that provides the registration basis for a § 44(d) application which is not based on use in commerce. Thus, whereas the court did not decide in that case the issue now before us, it appears that in recognizing an alternative

basis for registration all that it left undecided was whether evidence of foreign use is a necessary formality as to that basis. One commentator has even interpreted *SMC* as laying the groundwork for a holding that "constructive use" as of the filing date in a priority case be deemed to satisfy the use in commerce requirement in section 1 of the Act. Such a construction goes far beyond what is necessary for our purposes herein and we question whether this was intended, especially in view of § 44(d)(4).

The Legislative History

Were there doubt about our interpretation of § 44 as establishing a basis for registration without use, it seems to us this doubt is resolved in its favor by the legislative history of the Act. . . . A number of specific references to the purpose of the section before us are entirely consistent with our conclusions. Additionally, it should be noted that there is no reference anywhere in the history to the notion that use somewhere would continue to be required of foreign applicants or that specimens of such use were necessary formal requirements. These omissions are especially significant in that there is testimony in the record by an opponent of the international provisions, unchallenged by any of its proponents, to the effect that foreign applicants without use anywhere could secure registrations under its terms. That the interpretation reaches beyond traditional common law concepts as to the basis for ownership rights in a trademark is consistent with the broad scope intended of other § 44 provisions, especially § 44(h) in respect of the protection of foreign nationals against unfair competition beyond that accorded under the common law of the states. Thus, in construing all of the Section 44 provisions, the evidence is overwhelming from its legislative history that the intention of the Act was to implement the convention to the fullest extent possible.

. . .

Act of 1905

A final matter which remains for consideration is the argument in Certain Incomplete that its interpretation of § 44(c), (d), and (e) that foreign applicants unable to allege use in commerce must, nevertheless, allege use somewhere and submit specimens continues a practice which was continuously followed under the Act of 1905, without any question having been raised "as to the legality of these general requirements." [cit]. [The Board rejected the argument], noting [first] that one of the principal motivating forces behind the Lanham Act was the concern that the obligations of the United States under the Paris Convention and its companion Inter-American Convention had not been fulfilled by the Act of 1905 and the regulations and decisions by which that statute was implemented. In the second place, the restrictive interpretations under the 1905 Act of the same application requirements for foreign applicants as the ones herein involved also resulted from Office decisions following enactment of that predecessor statute, rather than defects in the statutory language. These decisions also appear to have ignored the clear purpose of the Act of 1905 to amend the trademark laws of the United States in order to conform them to our treaty obligations. Although no

public records of the hearings held in the years immediately prior to enactment of the Act of 1905 are available, this purpose was clearly set forth in the reports of both houses of Congress on the bill as well as a comprehensive report of a Commission appointed by the Congress in 1898 which studied and held coast-to-coast hearings concerning possible revision of our federal trademark laws, especially in view of the Paris Convention. From these reports, it is clear that the intention was to implement Article 6 of the Convention by providing an alternative basis for trademark registration for foreign applicants based on their country of origin registrations, without use.[57] The failure of Office decisions to recognize that clear intent in the predecessor statute cannot provide a rationale for failing to do so in relation to the present law.

For the foregoing reasons, Crocker's motion for summary judgment on the ground that Canadian Imperial's application for registration is void ab initio is denied. We further hold that Canadian Imperial is entitled to partial summary judgment on the same issue although a cross-motion therefore has not been made. . . . To the extent that it is in conflict with our decision herein, the decision in *In re Certain Incomplete Trademark Applications* is expressly overruled.

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Linville v. Rinard, 26 U.S.P.Q.2d 1508 (T.T.A.B. 1993). [Meril Rivard obtained a registration for ULTRACUTS for hair dressing and beauty salon pursuant to Section 44(e) on the basis of a Canadian registration. However, Rivard made no use of the mark in the U.S. for a period of five years and cancellation of the registration was sought by Mark Linville. The Board found that the mark had been abandoned.] There is no genuine issue that respondent did not use his mark for services rendered in the United States between 1986, when his registration issued, and 1991, when the petition for cancellation was filed. This, as a matter of law, establishes prima facie abandonment of the mark, because once a registration issues on the basis of Section 44, it stands on the same footing as any other registration, the registration date being the trigger of the two-year period for commencing use. *See Oromeccanica, Inc. v. Ottmar Botzenhardt*, 223 USPQ 59 (TTAB 1983), *rev'd* on other grounds, 226 USPQ 996 (CD Cal 1985). The terms "use" and "nonuse" in the statute mean use and nonuse in the United States. *Imperial Tobacco Ltd. v. Philip Morris Inc.*, 899 F.2d 1575 (Fed. Cir. 1990). . . . . [The Board noted further that] this case is . . . similar to *Imperial Tobacco Ltd. v. Philip Morris Inc.*, which involved a petition to cancel a registration obtained pursuant to Section 44(e) on the basis of the registrant's prior United Kingdom registration. The Court [there] stated that: "A foreign trademark may be known by reputation in this country and may even be protectable under concepts of unfair competition, but such mark is not entitled to either initial or continued registration where the statutory requirements for registration cannot be met." 14 U.S.P.Q.2d at 1393. The mere fact that residents of the United States have availed themselves of respondent's services while in Canada does not constitute technical trademark use of respondent's service mark which is sufficient to obtain or maintain a registration in the United States. The concept of territoriality is basic to trademark law, [cit], and it is a fundamental rule that activity outside of the United States is ineffective to create rights in marks within the United States. . . [The Board's opinion was appealed and the litigation continued for several

years. Ultimately, however, the Board's conclusion was affirmed by the Federal Circuit. *See* 133 F.3d 1446 (Fed. Cir. 1998).]

NOTES AND QUESTIONS

1. In 1977, after the *SCM* decision, the PTO proposed a rule change to adopt the view expressed there by the Board (but not reached by the D.C. Circuit) and later adopted in *Crocker Bank*. The proposal was withdrawn in the face of widespread criticism from the private trademark bar. Why did the proposal receive such a critical response? *See* John B. Pegram, *Section 44 Revision: After the 1988 Act*, 79 Trademark Rep. 220, 225-226 (1989); *see also* Alan Zelnick, *Shaking the Lemon Tree: Use and the Paris Union Treaty*, 67 Trademark Rep. 329, 345-46 (1977) (suggesting arguments why U.S. trademark applicants benefit from not requiring specimens of use from section 44(d) applicants). John Pegram suggested a compromise rule that required Section 44 applicants to allege use somewhere, even if not use in commerce. *See id.* at 227. Would you support such a rule, either as a matter of policy or as an appropriate implementation of the Paris Convention?

2. Some commentators, critical of the *Crocker Bank* decision, have cautioned litigants not to rely upon its holding before courts. *See, e.g.*, John B. Pegram, *Trademark Law Revision: Section 44*, 78 Trademark Rep. 141, 155-156 (1988). Although the Board has confirmed the interpretation it announced in *Crocker Bank*, see *Lane Ltd. v. Jackson Int'l Trading Co.*, 33 U.S.P.Q.2d 1351, 1357 (T.T.A.B. 1994), there has been judicial criticism of that interpretation. The late Judge Helen Nies of the Federal Circuit sought unsuccessfully to raise the issue sua sponte, claiming that *Crocker Bank* was incorrectly decided. *See In re Compagnie Generale Maritime*, 993 F.2d 841, 855 (Fed. Cir. 1993) (Nies J., dissenting). The disagreement over this aspect of section 44 has been left largely unresolved by authoritative judicial interpretation because of the limited scope of appellate review of examiner decisions not to grant a filing date. See *id.* at 847 (Nies J., dissenting); John B. Pegram, *Trademark Law Revision: Section 44*, 78 Trademark Rep. 141, 151 n.59 (1988).

3. Why did the *Crocker Bank* court discuss the London text of the Convention? (The London text was revised at Lisbon in 1958 and in Stockholm in 1967). *See* Paris Convention, art. 27; Bodenhausen, at 18-19, 212-215.

4. Article 6 of the London text, discussed in *Crocker Bank*, is found in Article 6*quinquies* of the current (Stockholm 1967) text of the Paris Convention. Article 6*quinquies* remains implemented in U.S. law via section 44(e) of the Lanham Act, which provides a basis for registration in addition to those offered by section 1(a) (use in commerce) and section 1(b) (intent to use in commerce). See 15 U.S.C. § 1126(e). In March 1988, when the intent to use reforms were introduced, approximately 7% of the active applications and registrations in the U.S. Patent and Trademark Office invoked the benefits of registration under section 44.

Section 44 provides two additional bases for application: Section 44(e) applications rest upon a foreign registration, while section 44(d) applications are predicated upon a foreign application. But only section 44(e) establishes an additional basis for registration. Section 44(d) establishes a priority right, see

Paris Convention, art. 4, and permits application based upon a foreign *application*. But absent the foreign application becoming a foreign registration (or use in commerce occurring) in the applicant's country of origin, the U.S. application under section 44(d) will not mature into a registration. See Section 44(c). What relief should a Section 44 registrant be able to obtain in the United States prior to U.S. use? *Cf. Dawn Donuts*, 267 F.2d 358 (2d cir. 1959); *Warnervision Entertainment v. Empire of Carolina*, 101 F.3d 259 (2d cir. 1996).

5. The *Crocker Bank* benefits are available to Section 44 applicants regardless of whether they seek the benefits of priority under Section 44(d). *See Hawaiian Host, Inc. v. Rowntree Mackintosh PLC*, 225 U.S.P.Q. 628 (T.T.A.B. 1985). And the benefits of section 44(d) priority date can also be asserted by any qualified applicant filing both under section 44 and under a section 1 basis within 6 months of a foreign application. *See Elexis Corp. v. Sunwatch*, Inc., 27 U.S.P.Q.2d 1798 (T.T.A.B. 1993). Why might a foreign applicant who can take advantage of Section 44(d) priority rest an application also upon another basis, such as an intent to use under Section 1(b)? *See* James Walsh, *Tips From the Trademark Examining Operation: The Impact of the TLRA of 1988 on the Filing of Applications Under Section 44 of the Trademark Act*, 80 Trademark Rep. 421, 426-427 (1990); *see also In re Paperboard Indus. Corp.*, 41 U.S.P.Q.2d 1159 (Comm'r Pat. & Tm. 1996).

6. A U.S. company can obtain the benefits section 44(e) if a foreign nation that is a member of a relevant Convention is its "country of origin." *See In re International Barrier Corp.*, 231 U.S.P.Q. 310 (T.T.A.B. 1986) (Delaware corporation with bona fide and effective industrial establishment in Canada); *cf. In re De Luxe N.V.*, 990 F.2d 607 (Fed. Cir. 1993) (permitting U.S. assignee of section 44 application to continue with application notwithstanding non-assignment of predicate foreign application). This is possible if the company has a real and effective industrial or commercial establishment in such a nation. *See* Section 44(c). The predicate registration must be issued by the applicant's "country of origin", although such an applicant can rely on an application in another Convention country to ground a claim of priority under Section 44(d). See Section 44(c).

7. In 1988, the Trademark Law Revision Act amended slightly the obligations imposed upon an applicant under Section 44. Such an applicant is now, like an intent to use applicant under section 1(b), required to allege a bona fide intent to use the mark in commerce. *See* 15 U.S.C. § 1126(d)(2). These reforms were intended to reduce the preference that foreign section 44 applicants received over domestic section 1 applicants. Does this requirement violate the Paris Convention? *See In re Unisearch Ltd.*, 21 U.S.P.Q.2d 1559, ____ (Comm'r Pat. & Tm. 1991). Even with this additional requirement, foreign applicants continue to receive the benefit under *Crocker Bank* of not being required to allege use prior to issuance of registration; domestic intent-to-use applicants must make such a showing. *See* 15 U.S.C. § 1051(d).

Despite the broad language in *Crocker Bank* and in some scholarly articles at the time of that decision, the Lanham Act permits registration of marks for which application was made under section 44 only where the mark is eligible for registration. All the usual bars to registration may be invoked by the PTO, although (at least under *Crocker Bank*) use cannot be required. Moreover, the

mark for which registration is sought under section 44 must be "a substantially exact representation" of the mark for which the predicate foreign registration was granted. *See In re Hacot-Colombier*, 105 F.3d 616, ___ (Fed. Cir. 1997) (change sufficient that benefits of section 44 denied).

8. Any registration obtained on the basis of Section 44(e) is independent of the registration of the country of origin, and its continued validity and maintenance is a matter for U.S. law. *See* Section 44(f). If a rival company believes that the foreign registration upon which the Section 44 application is based is invalid, how should it proceed? *See Fioravanti v. Fioravanti Corrado S.R.L.*, 230 U.S.P.Q. 36 (T.T.A.B. 1986); *Marie Claire Album S.A. v. Kruger GmbH & Co. KG*, 29 U.S.P.Q.2d 1792 (T.T.A.B. 1993); *cf. American Standard, Inc. v. Sanitary Wares Mfg. Corp.*, 3 U.S.P.Q.2d 1637 (D.D.C. 1987).

9. The potential difficulties with Article 6*quinquies* were apparent from its first incarnation as Article 6 of the 1883 text. At it most internationalist, the original text of the clause could be read to require Union countries to recognize and enforce trademark rights acquired in other Union countries. Because this did not reflect the intention of the signatory states, additional, less absolute language was sought; this eventually became the phrase "telle quelle." In addition, a Final Protocol accompanied (and was declared to be part of) the 1883 text and it included the following provision:

> Paragraph 1 of Article 6 should be understood in the sense that no trademark may be excluded from protection in one of the States of the Union for the sole reason that it does not comply, with regard to the signs of which it is composed, with the conditions of the laws of that State, provided it complies on this point with the laws of the country of origin and that it has been properly filed there. Subject to this exception, which only concerns the form of the mark, and subject to the provision of the other Articles of the Convention, each State shall apply its domestic law.

See Bodenhausen at 110.

The Protocol was omitted from the 1911 text, and Article 6 was revised to enumerate the limited cases in which a trademark granted by a fellow Union country may be refused recognition under Article 6. (Those grounds are now found in paragraph B of Article 6*quinquies*). The provision was further revised in the succeeding texts of the Convention and is now Article 6*quinquies*. What meaning or effect might attach to these textual revisions. *Compare* John B. Pegram, *Trademark Law Revision: Section 44*, 78 Trademark Rep. 141, 157-158 (1988), Bodenhausen, at 110; Alan Zelnick, *Shaking the Lemon Tree: Use and the Paris Union Treaty*, 67 Trademark Rep. 329, 338 (1977).

10. In light of the decision in *Crocker Bank*, in an application invoking the benefits of section 44, should the telle quelle principle require the U.S. Patent & Trademark Office to accept the (typically broader) specification of goods contained in the foreign application upon which the section 44 claim is based? *See In re Société Générale des Eaux Minerales de Vittel S.A.*, 1 U.S.P.Q.2d 1296, 1298-1299 (T.T.A.B. 1986) (permitting PTO to require more particularized

specification of goods in line with U.S. practice), *rev'd on other grounds*, 3 U.S.P.Q.2d 1450 (Fed. Cir. 1987).

Article 6(1) specifically reserves to each state the right to determine the conditions for the filing and registration of trademarks. How is this line to be drawn? Alan Zelnick argued after *SCM* that "while it is true that the language of [Article 6*quinquies*] appears to have been directed only to the form and nature of the mark or features internal or intrinsic to the mark itself, nevertheless it seems clear that there is an inherent limitation on the power of member states to promulgate 'conditions' which have the effect of limiting the right to register marks otherwise clearly registerable under Section [6*quinquies*(A)]." Alan Zelnick, *Shaking the Lemon Tree: Use and the Paris Union Treaty*, 67 Trademark Rep. 329, 341 (1977). This highly internationalist argument is a minority viewpoint. Both the leading international commentator on the Paris Convention and the leading U.S. commentator of the time on international trademark law adopt a more restrictive view of the telle quelle obligation. *See* Bodehausen, at 110; Stephen P. Ladas, *Patents, Trademarks and Related Rights: National and International Protection § 654*, at 1221 (1975). Under Zelnick's argument, would the telle quelle principle require foreign countries to accept registration of olfactory marks registered in the United States even if such countries did not accept registration of such marks? *Cf.* Alan Zelnick, *Shaking the Lemon Tree: Use and the Paris Union Treaty*, 67 Trademark Rep. 329, 340 (1977) (discussing mandatory registration of marks comprised of numerals in countries that, formerly at least, did not accept such marks for registration). How is your answer affected by the adoption of a definition of "trademark" in the TRIPS Agreement that does not include such marks? *See* TRIPS, art. 15. TRIPS was intended to enact a regime of "Paris plus" as regards trademarks; if the agreed-upon definition in Article 15 affects your analysis, does TRIPS represent a regime of "Paris minus" in some regards? *See generally* L. Ellwood, *The Industrial Property Convention and the Telle Quelle Clause*, 46 Trademark Rep. 36 (1956).

11. The history of the Paris Convention recited in the *Crocker Bank* opinion reveals several different approaches to international trademark protection contemplated by negotiating parties and national legislators or advocates. Identify those different approaches. Can you tell which prevailed? Which is reflected in the Lanham Act? To what extent does the Paris Convention embody an internationalist approach to trademark protection? On what issues has national trademark law been subordinated to international principles, and on which issues has national sovereignty been retained? As we discuss more recent international trademark agreements consider whether the issues that the international community has subjected to international regulation are the same upon which the Paris Convention (as interpreted by *Crocker Bank*) focused. Which aspects of national trademark law created the problems presented in *SCM* and *Crocker Bank*?

(v) Substantive Minima: Well-Known Marks

As indicated in the excerpt from Schmidt-Szalewski above, the Paris Convention included various provisions requiring member states to provide

minimum levels of protection. Two of these "substantive minima" are of particular importance. We discussed the first of these, Article 10*bis,* above in the context of the *Lopez* opinion. The second substantive minima warranting detailed attention is Article 6*bis*. In this Section we will consider Article 6*bis* and later treaty provisions, most notably Article 16 of TRIPS, that build upon Article 6*bis*. We will then turn in the next section to a separate analysis of TRIPS provisions other than Article 16.

Article 6*bis* requires member states "*ex officio* if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, of a trade mark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods." As Bodenhausen noted, "the purpose of [Article 6*bis*] is to avoid the registration and use of a trademark, liable to create confusion with another mark already well known in the country of such registration or use, although the latter well-known mark is not, or not yet, protected in that country by a registration which would normally prevent the registration or use of the conflicting mark." G.H.C. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY 90 (1968). To some extent, the treatment of well-known marks in Article 6*bis* is a derogation from the principle of territoriality.

Frederick W. Mostert, WELL-KNOWN AND FAMOUS MARKS: IS HARMONY POSSIBLE IN THE GLOBAL VILLAGE?
86 Trademark Reporter 103, 103-106, 114-117 & 140 (1996)

Our global village provides increasing opportunities for us, as world citizens, to purchase internationally famous branded goods and services. In fact, brands are usually preceded by their reputations. Branded goods or services are often pre-advertised and pre-sold even though they are not yet physically present in the market of any particular country. Media dissemination and modern advertising are becoming less and less limited by national boundaries in view of sophisticated communication, technology and the frequency of travel.

Satellite traffic over our village has increased from one satellite in 1957 to an estimated 2,300 satellites today. Globalcasting via satellite has accordingly become the daily norm. In turn, this single development has facilitated brand exposure exponentially. For instance: universally attractive events (which are sponsored by brand owning companies) such as the OLYMPIC GAMES are estimated to be viewed by over one billion viewers (approximately 17 percent of the world's population) on a single day. The last WORLD SOCCER CUP was viewed by approximately half a billion viewers per match and FORMULA 1 RACING is watched by about 0.3 billion viewers per race during 16 Grand Prix races a year in 121 countries. More direct modern promotion through web-sites on the Internet has also assisted brand stimulus and exposure on a worldwide basis.

Not only satellite traffic but also jet travel has risen rapidly in the second

half of the century. Estimates are, for example, that approximately 1,000 BOEING 747 Jumbo Jets (not to mention other models) are currently negotiating their way through the airways in order to transport passengers on a daily basis across the globe. Such frequent travel for reasons of business, study or pleasure allows people to become familiar with various brands in other countries.

In such a smaller but more intensely networked world, brand manufacturers are no longer confined to local markets. They function in an integrated global market place. Brand producers find themselves providing goods and services in bigger and bigger markets created by free trade pacts and the creation of single markets throughout the world. Brands such as COCA-COLA, McDONALD'S, CARTIER, SMIRNOFF, ROLLS-ROYCE, FERRARI, KODAK, SONY, CNN and DHL have virtually become household names to the global citizen. Against the reality of this background, there is certainly no doubt in the minds of businessmen that the reputation and good will attached to their famous brands have become detached from national and local borders.

The global village does, however, provide ever increasing temptations to local villagers to trade on the reputation of globally famous trademarks. Such "enterprising entrepreneurs" are equally assisted by modern technology. No longer will these "entrepreneurs" need to attend trade shows elsewhere only to run back to a local jurisdiction ahead of the original trademark owner in order to be the first to register the particular trademark. These days they are more likely to rely on a host of information retrieval resources made possible by digital communication technology. It is not surprising therefore that the [WIPO] indicated in a recent memorandum that: "National Trademark Offices are often confronted with the problem that so-called 'trademark pirates' apply for the registration of marks ahead in time of the true owners." The reason is that the brand owning companies who own such well-known trademarks frequently find that they have not yet been in a position to expand their business activities under those marks nor have they obtained registrations for their marks in all jurisdictions. Even the most famous marks are not used everywhere, and it is not possible to register and maintain trademark registrations in all international classes in all jurisdictions. Similarly, there are often instances where the owner has filed an application to register the mark, but is caught by the lengthy official process that is involved before the mark can be registered. Meanwhile, a "trademark pirate" may have stolen a march on the owner by being the first to use a similar mark. In the event of such a preemption, the question is simply whether the company whose mark's reputation extends to the particular country should be afforded protection, or whether the local enterprise—who intercepted the owner and first used or registered the well-known trademark in the local jurisdiction—should be permitted to do so. For instance, if Pizza Hut had not yet commenced business activities under its well-known service mark in Cyprus, should a local imitator be allowed to open a PIZZA HUT restaurant and sell frozen pizza pies in Cyprus? When copiers attempt to register and use the WHIRLPOOL trademark in relation to washing machines in India, should they be permitted to do so? Should businessmen in Paraguay be permitted to register or use the McDONALD'S trademark with respect to hamburgers without authorization?

Brand owners are confronted with the need to protect their well-known trademarks on a global basis. Such a need for protection is particularly significant

if one keeps in mind that the brands COCA-COLA, MARLBORO and IBM together have been estimated to be worth close to $ 100 billion (US) as intellectual property assets. It is, therefore, not surprising that the appropriate protection of well-known marks and intellectual property has become a significant factor in the trading relations between nations. . . .Not only are the equities and the economic concerns of trademark owners at stake but also the international standards of fair play and comity between nations. The protection of the global trading system through the prevention of piracy and unfair exploitation of well-known marks has become essential.

Consequently, for businesses who battle in the commercial trenches of the modern international market place, a strict adherence to the more traditional territorial concept of trademarks has become an economic concern of global proportions. In addition, it should be noted that the recognition and protection of well-known marks differ from country to country: the definitions and criteria in this area of trademark law remain elusive. . . .

It is apparent that clearer guidelines and a more universal approach based on common principles are urgently required to combat piracy throughout the world.

. . .

PARAMETERS OF A WELL-KNOWN MARK

The establishment of a set of guidelines or criteria to determine whether a mark is well-known is of increasing importance in view of international trade and the need for effective recognition and protection of well-known marks. Almost as important, is the necessity to provide a clear content to the concept "well-known mark." . . .

Courts and commentators use a variety of terms to refer to well-known marks, including "notorious," "famous," "highly-renowned," "highly-reputed" and "exceptionally well-known" marks.[58] These terms have such a large degree of overlap and inter-connection that their multiple use has caused a fair amount of confusion. In fact, an illustrious panel of experts on well-known marks indicated that such "usage reflects no more than a linguistic muddle." The better view seems to be one that focuses on the universal term provided in Article 6*bis* of the Paris Convention of a well-known mark: "marque notoirement connue," "notorisch bekannte Marke," "marchio notoriamente conosciuto" or "marca notoriamente conocida." . . . In the context of trademark law, therefore, a well-known mark can be characterized as a mark which is known to a substantial segment of the relevant public in the sense of being associated with the particular goods or services.

It has often been suggested that a special category of well-known marks, *i.e.*, "famous" marks be recognized. Famous marks are considered to have a higher degree of reputation than well-known marks and therefore deserve a broader scope of protection against unauthorized use on non-competing goods or services. The wider ambit of protection afforded to famous marks on non-competing goods or services to which their commercial magnetism extends, consequently constitutes an exception to the "principle of speciality." The "principle of speciality" stipulates that trademarks can only be protected in

relation to the same or similar goods or services covered by their use or registration. The rigidity of this principle has hampered the extended protection required on non-competing goods in countries such as Italy. In sum, a famous mark can be viewed as a mark which is known to a large section of the public.[59]

The reverse seems to apply in Brazil, *see* Luiz Henrique do Amaral, *Famous Marks: The Brazilian Case*, 83 TMR 394, 406 (1993) where there is a court ruling that defines "famous" marks as those marks which have been registered under domestic legislation while "well-known" marks are marks which have become internationally recognized and are not registered under national law.

It should be noted that a highly precise, strict differentiation between "famous" and "well-known" marks beyond the degree of reputation required is not possible as these concepts are relative. What is clear though, is that the higher the degree of reputation or commercial magnetism acquired by a mark, the broader its scope of protection. In fact, the more well-known or famous a mark is, the more inclined the courts will be to assume that injury is present.

. . .

. . . "Good will" eloquently described by Lord MacNaghten as "the attractive force which brings in custom," still represents an accurate description of this concept in the market place. No longer can physical locality be considered as one of the most important and visible factors to establish good will. Contemporary consumers do not concern themselves with the site of the manufacturing plant or the actual location of the headquarters of the trademark owner. They are more interested in the continuous level of quality symbolized by internationally well-known or famous marks such as MONTBLANC, HEINZ, REEBOK, CHANEL and MARS. The speed and extent to which reputations can be established are almost limitless in view of the increasing sophistic ation of international communication, spillover advertising, the frequency of travel and the peripatetic behavior of the modern consumer. The force of such international advertising and travel exposes the consumer public to well-known and famous trademarks throughout the world. In today's business world good will generates a commercial magnetism whose power may be perceived far beyond its original intended scope. When the owner of a well-known or famous mark has established an exclusive association between the mark and its goods or services, the owner has a acquired good will, "an attractive force which brings in custom." Merely because such an owner is unable to demonstrate the physical presence of its products or services within the jurisdiction, does not detract from the reality and importance of this intangible asset and the various forms of permanent damage which can be suffered beyond traditional diversion of custom. The realities of the modern market place dictate that the most sensible approach to measure the extent of good will is to recognize its manifest international character and to determine its geographical scope in a given case by regarding it as a question of fact.

QUESTIONS

1. Mostert notes that product marketing is becoming less limited by national boundaries, and identifies increased media dissemination, enhanced technology, and a growth in international travel as causes of that phenomenon. Identify any other aspect of late twentieth century society, connected or unconnected to any of the above, that has encouraged, facilitated or compelled

the internationalization of product manufacture, marketing and distribution? Does Mostert's prescription favor particular social or economic institutions over others? Who stands to benefit from enhanced protection for well-known marks? What characteristics identify the group of persons with whose problems Mostert appears most concerned?

2. In Philips Elec. BV v. Remington Consumer Prods. [1998] RPC 283 (Ch. D. 1997) (UK), Philips sought to restrain the distribution of Remington shavers similar to its three headed rotary design. Among its claims (discussed more fully *infra*), Philips alleged infringement of Section 56(2) of the 1994 UK Trademarks Act, which implements Article 6*bis* of the Paris Convention. The U.K. court rejected the argument for several reasons. The first has widespread support, namely that "the true purpose of this provision is to deal with people who use a mark which does cause confusion, even if the plaintiff has no business (and no goodwill, in the English law of passing off sense) here"; the court held that Remington's use would not cause confusion. *See also McDonald's Corporation v Joburgers Drive-In Restaurant (Pty) Ltd* (Appellate Division 1997) (SA) (noting confusion foundation of Article 6*bis*). In effect, the court suggested, Article 6*bis* "puts the plaintiff who has a reputation but no business here in the same position as if he had a business here." The second reason tendered by the court is more questionable. The court concluded that a product shape in three dimensions was not a trade mark for the purposes of section 56 and the Paris Convention. The court noted that "at the time of introduction of Article 6*bis* (1927) no-one would have dreamt that the provision covered engineering artefacts of this sort. And the meaning cannot widen with time. And even now that shapes can be trade marks for Europe, that is not so for many other countries." Is it relevant to the interpretation of Section 56—or the U.K.'s obligations under Article 6*bis* of the Paris Convention—what the understanding of the drafters of Article 6*bis* were with respect to product design marks? If so, in what ways and to what extent? Should it be relevant that "even now that shapes can be trade marks for Europe, that is not so for many other countries"?

3. Review *Mother's, Vaudable*, *Person's* and *Buti supra* pages __-__. Are the principles articulated in those cases consistent with Article 6*bis*? Although the *Vaudable* Court did not discuss rights that might have existed under the Paris Convention, could the plaintiff have asserted a claim under Article 6*bis* or Article 10*bis* of the Paris Convention? Is the *Vaudable* standard different from that required by Article 6*bis*? *See Mother's* (Allen, concurring) ("it seems to me that the Vaudable decision according protection to the famous MAXIM's restaurant name in the United States . . . is inapplicable to this case since that decision was based on a theory of unfair competition, namely misappropriation, under the law of the State of New York. Under Federal law, it seems to me that application of the well-known marks doctrine depends upon whether the applicable text of the Paris Convention, in this case, the 1934 London text, and, in particular, Article 6*bis* of that Convention, is self-executing."). Should the Person's Company have had a claim under Article 6*bis*?

4. At the 1958 Revision Conference, an attempt expressly to *require* member states to protect well-known trademarks whether or not they have been *used* in the country where protection was sought was defeated by 25 votes to 2. *See* Bodenhausen, *supra*, at 91. Member States are free under the Paris

Convention, however, to provide protection without regard to use, and that approach commands increasing support as an internationally-mandated standard. *See* Report of the First Session of the Committee of Experts on Well-Known Marks in Geneva on November 13-16, 1995, WIPO Document # WKM/CE/I/3, at ¶¶ 75-80 (Nov. 16, 1995) (majority of countries believed that protection of well-known marks should be available regardless of whether a mark was used in the territory in which protection was sought). Many countries offer relief based upon the international reputation of a mark without there being domestic use. *See, e.g, Al Hayat Pub. Co. v. Ahmed Sokarno* (Australia), reported in 10 World Intellectual Property Report 207 (1996); *CW Communication Inc. v. KK Denpa* (Tokyo High Court, 1992), reported in [1996] E.I.P.R. D-171 (June 1996); *Orkin Exterminating Co. v. Pestco of Canada Ltd.* (1985) 5 CPR (3d) 433 (granting U.S. plaintiff injunction against use of mark in Canada notwithstanding plaintiff's non-use in Canada). For a discussion of English law, *see* David Rose, *Season of Goodwill: Passing Off and Overseas Traders*, 18 Eur. Intell. Prop. Rev. 356 (1996). Do U.S. courts follow the strict interpretation of Article 6*bis* of the Paris Convention, or do they offer protection to well-known marks without use in the U.S.? Should the United States adopt this more liberal position in excess of the requirements of Article 6*bis* of the Paris Convention? What interests would—or does, in the case of countries following the more protective approach—this extension serve? What types of producers benefit most from protection without requiring use in the country in which protection is sought? The WIPO General Assemblies recently agreed a non-binding resolution on well-known marks that stipulates that a well-known mark will be protected in a specific country on the ground that it is well-known, even if the mark is not registered or used in that country. *See infra*.

5. The "protection without use" question cannot be divorced from the rest of Article 6*bis*. The language of Article 6*bis* holds open the possibility that the owners of well-known marks may oppose (or obtain cancellation of) registrations for confusingly similar marks in countries without having first used or registered the mark in those countries. Since the Lisbon revision of the Convention in 1958, however, the provision also enables the mark owner to enjoin the *use* of such confusingly similar marks without having itself used or registered the mark in the relevant country. Is it appropriate that a mark owner can ensure that there is *no* use of a mark by any producer in a country? What adverse consequences flow from such a possibility?

6. Even if the U.S. protects well-known marks without use in the U.S., should an injunction issue to the owner of the well-known mark absent plans to expand into the U.S.? In the context of two domestic users, the majority of U.S. courts have been reluctant to grant the owner of a federal U.S. trademark registration an injunction to prevent use by a junior user in a geographic area into which the senior user has no current plans to expand. *See, e.g., Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959) (because plaintiff registration owner and defendant junior user used the mark in separate markets and there was no present prospect that plaintiff would expand into defendant's market, court concluded that confusion was unlikely and denied injunction); *see also Comidas Exquisitos, Inc. v. O'Malley & McGee's Inc.*, 775 F.2d 260, 262 (8th Cir. 1985) (senior user and registrant is only entitled to an injunction when it

proves a likelihood of expansion into the junior user's area). *But see Sterling Brewing, Inc. v. Cold Spring Brewing Corp.*, 100 F. Supp. 412, 417-418 (D. Mass. 1951) (granting immediate injunction against defendant's use in an area in which plaintiff registrant did not use the mark and into which plaintiff could not reasonably be expected to expand).

7. Owners of foreign marks that seek protection for their marks in the U.S. based solely upon the reputation of these marks must prove that such marks have achieved well-known status. What are the means by which well-known status may be demonstrated? What criteria should be taken into account? *See infra*, pages ___-___. Should a mark's status be determined by whether a fixed percentage of consumer recognition is revealed by survey evidence? Is such an objective standard desirable or workable? Would a flexible standard be more appropriate? What other objective definitions of reputation could be used? For example, should international agreements (or national laws implementing Article 6*bis*) provide that a mark will be well-known only after 10 years continuous use? Only after a certain volume of sales? Should such levels of use or notoriety be necessary (but not dispositive) or sufficient?

8. Article 6*bis*(2) provides that "a period of at least five years from the date of registration shall be allowed for requesting the cancellation of such a mark. The countries of the Union may provide for a period within which the prohibition of use must be requested." But under Article 6*bis*(3), an action by the owner of the well-known mark to cancel its mark registered or used by another in bad faith is subject to no time limit. Under which provision of the Lanham Act, would the owner of well-known mark seek cancellation of the registration of such a mark? *See* Section 14 of the Lanham Act, 15 U.S.C. § 1064. What does Article 6*bis*(3) mean by "bad faith"? *See* G.H.C. Bodenhausen, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY 92 (1991) ("Bad faith will normally exist when the person who registers or uses the conflicting mark knew of the well-known mark and presumably intended to profit from the possible confusion between that mark and the one he has registered or used"). Does the approach of the *Persons* court comport with Article 6*bis*(3)?

Article 16 of TRIPS

(1) The owner of a registered trade mark shall have 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 shall be presumed. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use.

(2) Article 6*bis* of the Paris Convention (1967) shall apply, *mutatis mutandis*, to services. In determining whether a trade mark is well-known, members shall take account of the knowledge of the trade mark in the relevant sector of the public, including knowledge in the member

concerned which has been obtained as a result of the promotion of the trademark.

(3) Article 6*bis* of the Paris Convention (1967) shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect of which a trade mark is registered, provided that use of that trade mark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trade mark and provided that the interests of the owner of the registered trade mark are likely to be damaged by such use.

Paul J. Heald, TRADEMARKS AND GEOGRAPHICAL INDICATIONS: EXPLORING THE CONTOURS OF THE TRIPS AGREEMENT,
29 Vand. J. Transnat'l L. 635, 641-643 & 654-655 (1996)

Rights of Registrants

Article 16 grants the owner of a registered mark the right to prevent confusing uses of an identical or similar mark on identical or similar goods. As under U.S. law, a presumption of confusion arises when identical marks are used on identical goods. Unlike under the Paris Convention, however, TRIPS service marks receive protection equal to that of marks affixed to goods or trade names.

Owners of "well-known" marks obtain additional protection against certain uses of their marks on dissimilar goods. Unfortunately, "well-known" is defined in neither the TRIPS Agreement nor the Paris Convention. Although TRIPS provides that "the knowledge of the trademark in the relevant sector of the public, including knowledge in that member obtained as a result of the promotion of the trademark" shall be taken into account, no further guidance is given. Prior discussion and litigation of the definition of well-known merely emphasizes the uncertain protection of marks when used on unrelated goods. Under the Lanham Act, a trademark owner is protected from confusing uses of its mark on dissimilar goods irrespective of the relative fame of the mark.[60]

TRIPS protection of well-known marks against uses on dissimilar goods appears limited to situations involving what the Lanham Act describes as "confusion . . . as to . . . sponsorship." In a false sponsorship case, the trademark owner must prove that consumers are likely to believe that the infringing goods are authorized, licensed, or officially approved by the trademark owner. This differs from state law causes of action for trademark dilution, which do not require confusion or mistaken belief, but purport to provide a remedy for the "tarnishment" or "dilution" of the trademark's intrinsic value. Article 16 of TRIPS requires that a dissimilar use "indicate a connection between [the infringing] goods or services and the owner of the registered trademark." The requirement of a mistaken belief in a "connection between those goods" seems much closer to the traditional Lanham Act false sponsorship cause of action than to a cause of action for dilution.

. . .

Implementing Legislation in the United States

Although some recent commentary suggests TRIPS may require the passage of a federal dilution statute, Article 16 need not be read so broadly. At least two credible arguments can be made against the need to amend. First, Article 16 requires that consumers perceive a "connection" between the use of the owner's trademark and the dissimilar goods on which the offending use has been made. Traditional dilution doctrine in the United States does not require that consumers perceive any "connection." For example, a chestnut example of the dilution doctrine posits the prohibition of the use of "Rolls Royce" by a peanut vendor in the Bowery. No one believes Rolls Royce autos have any connection to peanuts; Rolls Royce merely wants to maintain control over what is a valuable part of its industrial property. The "connection" requirement is better understood to establish a cause of action for false sponsorship or association, remedies for which are already found in the Lanham Act.

Second, Article 16 incorporates Article 6*bis* of the Paris Convention, which prohibits reproductions, imitations, and translations of well-known marks from uses on identical or similar goods that are "liable to create confusion." After stating that Article 6*bis* shall apply *mutatis mutandis* to dissimilar goods and services, thereby expanding the existing level of protection, Article 16 of the TRIPS Agreement adds the "connection" qualifier. Article 16 might plausibly be read to retain fully the confusion element of Article 6*bis*,[61] thereby requiring that consumers be confused by the perceived connection between the infringer's use of another's trademark. So understood, no amendment to the Lanham Act is necessary to create a cause of action independent of confusion. No federal cause of action for dilution is necessary to harmonize domestic law with the TRIPS Agreement.[62]

NOTES AND QUESTIONS

1. The Paris Convention does not extend the protection of Article 6*bis* to service marks (although signatory countries were free to do so). *See* Article 6*bis*(1) (restricting provision to use of the mark on similar or identical *goods*). Article 16(2) of the TRIPS Agreement remedies that (intentional) omission from the Paris Convention by providing for the application of Article 6*bis* to service marks. *See also* Trademark Law Treaty, art. 16 (requiring contracting parties to extend protections of Paris Convention to service marks).

2. The language of Article 16(3) of the TRIPS Agreement suggests that this provision only applies to well-known marks that are *registered*. Annette Kur has argued that the reference to registration is a drafting error. *See* ANNETTE KUR, *TRIPS and Trademark Law, in* 18 Studies in INDUSTRIAL PROPERTY AND COPYRIGHT LAW 93, 108 (Friedrich-Karl Beier & Gerhard Schricker eds. 1996). Dr. Kur notes that early drafts of the TRIPS Agreement contained a provision which required registration as a condition for protection but that this provision was not included in the final text. Therefore, the mention of registration in Article 16(3) was overlooked when the text was finalized. Moreover, that registration would be required under Article 16(3) is anomalous with the premise for extending protection to well-known marks under Article 6*bis*. *See* Frederick W. Mostert, *Well-Known And Famous Marks: Is Harmony Possible In The Global Village*, 86 Trademark Reporter 103, 117 n.49 (1996) (suggesting that the

Benelux provision requiring registration as a precondition for protection is "strictly speaking" in conflict with Article 6*bis*). In any event, Article 16(3) establishes *minimum* standards of protection such that Members may extend protection to unregistered well-known marks. *See* Lanham Act, Section 43(c).

3. The language of Article 16(2), when read in the context of Article 6*bis,* strongly suggests that a mark must be well-known in the country where protection is sought in order to claim the benefits of the provision. Why not consider the international popularity of a mark as a sufficient basis for extending protection notwithstanding the absence of notoriety in the country where protection is sought? Such arguments were advanced during the negotiations for the TRIPS Agreement but failed. *See* ANNETTE KUR, *TRIPS and Trademark Law, in* 18 STUDIES IN INDUSTRIAL PROPERTY AND COPYRIGHT LAW 93, 106 n.59 (Friedrich-Karl Beier & Gerhard Schricker eds. 1996) (noting U.S. proposal and Indian opposition thereto). What are the arguments for and against such an approach? How would international popularity be determined? Is "international" popularity different from "foreign" popularity? Would the Italian defendant owner of the Fashion Cafe in Milan in *Buti* have priority in the U.S. under an "international popularity" standard?

4. Article 16(2) states that a mark must be well-known to the *relevant sector of the public.* Mostert argues that this language evinces the drafters' intention that the mark need not be well-known to the entire population of the country where protection is sought but only to the mark's target audience. *See* FREDERICK MOSTERT, FAMOUS AND WELL-KNOWN MARKS 26 (Butterworths 1997); *see also* North American Free Trade Agreement, art. 1708(b) ("No party may require that the reputation of a trademark extend beyond the sector of the public that normally deals with the relevant goods or services"). In what circumstances might this interpretation have important practical consequences for the owner of a mark seeking to invoke the protection of Article 16(2)? *Cf. Mead Data Central Inc. v. Toyota Motor Sales*, 875 F.2d 1026, 1030-31 (2d Cir. 1989). Might the breadth of a mark's notoriety (*i.e,* whether it extends to a particular group of purchasers or to the public at large) be a criterion by which to determine "fame" and thus whether a mark should receive extended protection?

5. As Mostert notes different countries use different terminology to describe the concept of a "well-known mark." Mostert argues, however, that "[a]s long as the focus remains on the outcome of the factual enquiry, the confusion which may result from over formalistic terminology or labeling could be avoided. Has the mark in question in fact acquired a sufficient reputation, fame or well-known status among the consuming public to warrant extended protection to the particular territory or in respect of non-competing goods or services?" *See* FREDERICK MOSTERT, FAMOUS AND WELL-KNOWN MARKS 21 (1997). Is this standard helpful? Should efforts be made to conform terminology internationally, or is that an elevation of form over substance as Mostert implies? *See World Trademark Symposium: Famous Marks*, 82 Trademark Rep. 987, 989 (1992) (noting that current multitude of terms reflects "no more than a linguistic muddle" and suggesting use only of the term "well-known" marks, meaning marks with a broader reputation than most marks, and "famous" marks that possess an even broader reputation).

6. The Harmonization Directive of the European Union, *see infra*,

extends protection of marks which have a *reputation* to dissimilar goods or services where the defendant's use of the mark would have the effect of *taking an unfair advantage* of the plaintiff's reputed mark. *See* Trademark Directive, art. 5(2). Do the provisions of the Harmonization Directive meet the requirements of Article 16(3)? *See* ANNETTE KUR, *TRIPS and Trademark Law, in* 18 STUDIES IN INDUSTRIAL PROPERTY AND COPYRIGHT LAW 93, 108 n.66 (Friedrich-Karl Beier & Gerhard Schricker eds. 1996) (noting statement of European Commission representatives at Meeting of Committee of Experts on Well-Known Marks that EC in compliance with TRIPS because "reputation" is a less demanding standard than "well-known" marks); Case C375/97, General Motors Corp. v. Yplon SA, 1999 E.T.M.R. 950 (E.C.J. 1999) (holding that the term "reputation" suggested that the mark must be "fairly well known" and identifying factors that national court might consider).

7. The WIPO Committee of Experts on Well-Known Marks meeting in Geneva in 1995 and 1996 considered the merits of establishing, by treaty, an international registry for well-known marks. The proposal encountered substantial opposition. Why? What advantages might an international registry provide? *See World Trademark Symposium: Famous Marks*, 82 Trademark Reporter 989, 991 (1992). What rights would flow from inclusion in an international registry? What requirements would be imposed upon trademark owners seeking entry on such a register? How would the register be administered?

8. In 1995, the WIPO Committee of Experts on Well-Known Marks addressed the need for establishing a framework for extending protection of well-known marks to dissimilar goods or services. The International Bureau's memorandum considered by the Committee described two bases for extending the protection accorded to well-known marks along these lines. First, a special category of well-known marks, *i.e.* famous marks, could be recognized with a greater showing of notoriety meriting a greater degree of protection (*i.e.,* against uses on dissimilar goods). How would you distinguish between "well-known" marks and "famous" marks? What would be the criteria for determining whether a mark is famous? Consider the following proposed definition:

> A *famous* mark is a mark which is extremely widely-known in the country concerned to at least 80% of the potential purchasers of the goods or services for which it is known, and to at least 90% of the relevant trade circles. Furthermore a famous mark must be a registered mark at least in its owner's home territory, and have a value, calculated by an internationally acceptable method, of at least $4000 [sic] million.

David H. Tatham, *What is a Famous Brand* 22 (1995) (paper delivered in connection with speech at MARQUES 1995 Annual Conference), *quoted in* Miles J. Alexander & Michael K. Heilbronner, *Dilution Under Section 43(c) of the Lanham Act*, 59 Law & Contemp. Prob. 93, 106 n.76 1996). What other forms of enhanced protection might be appropriate for those marks that are so well-known as to be considered famous?

The second approach calls for identifying *conditions* under which

protection of a mark would be extended to uses on dissimilar goods or services. Article 16(3) of the TRIPS Agreement incorporates this latter idea by extending protection of well-known marks where the mark's use on noncompeting goods indicates "a connection between those goods or services and the owner of the registered trademark and [where] the interests of the owner of the registered trademark are likely to be damaged by such use." *See* Article 16(3) of TRIPS Agreement. Which of the two approaches do you prefer? How will the mark owner demonstrate the necessary damage where it has not used the mark in the U.S., or where the mark has been adopted by the defendant for use on noncompeting goods or services? Is the possible preclusion from the U.S. market or from expanding the range of products for which the mark may be used too speculative? If inhibition of likely market expansion were a means of showing "likely damage" under a national law implementing Article 16(3), to what extent would U.S. multinationals wishing to protect their marks abroad possess an advantage over smaller companies from lesser developed countries?

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THE FEDERAL DILUTION ACT OF 1995: H.R. REP. NO. 374, 104TH CONG., 1ST SESS. 4 (1995)

[T]he recently-concluded [TRIPS Agreement] . . . includes a provision designed to provide dilution protection to famous marks. Thus, enactment of this bill will be consistent with the terms of the agreement, as well as the Paris Convention, of which the U.S. is also a member. Passage of a federal dilution statute would also assist the executive branch in its bilateral and multilateral negotiations with other countries to secure greater protection for the famous marks owned by U.S. companies. Foreign countries are reluctant to change their laws to protect famous U.S. marks if the U.S. itself does not afford special protection for such marks.

It should be noted that as originally introduced, H.R. 1295 only applied to famous registered marks. However, based on testimony by the Patent & Trademark Office, Congresswoman Patricia Schroeder offered an amendment . . . to include all famous marks falling within the scope of the bill. The Patent & Trademark Office made a compelling case that limiting the federal remedy against dilution to those famous marks that are registered is not within the spirit of the United States' position as a leader setting the standards for strong worldwide protection of intellectual property. Such a limitation would undercut the United States' position with our trading partners, which is that famous marks should be protected regardless of whether the marks are registered in the country where protection is sought.

NOTES AND QUESTIONS

1. Congress apparently detected the presence of some international obligations when it enacted the Federal Dilution Act of 1995. Are you persuaded by Professor Heald's argument that TRIPS did not require the enactment of a federal dilution statute in the United States? *See also* Robert C. Denicola, *Some Thoughts on The Dynamics of Federal Trademark Legislation And The*

Trademark Dilution Act of 1995, 59 Law & Contemp. Prob. 75, 84 n.40 (1996) (suggesting that "it is not at all clear" that Article 16(3) requires the enactment of a dilution statute); *cf.* J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under The TRIPS Component of the WTO Agreement*, 29 Int. Law. 345, 363 (1995). Frederick W. Mostert has suggested that:

> [Article 16(3)] will probably serve as the basis for legal action founded on a likelihood of business connection or sponsorship, [but] it is also possible that this provision will form the grounds, where appropriate, of an action of trademark dilution in the absence of any confusion but where some association of the well-known mark with the goods or services of the registered owner is present.

See Frederick W. Mostert, *Well-Known And Famous Marks: Is Harmony Possible In The Global Village,* 86 Trademark Reporter 103, 130 (1996).

Does Mostert's interpretation differ in substance from Professor Heald's? *See* Heald, *supra* ("The 'connection' requirement is better understood to establish a cause of action for false sponsorship or association, remedies for which are already found in the Lanham Act."); *see also supra* pages __-__ (discussing EU Trademark Directive confusion/association debate).

2. If the TRIPS Agreement does mandate protection against dilution, does the Federal Dilution Act of 1995 implement U.S. obligations fully? *See Babson Bros. v. Surge Power*, 39 U.S.P.Q.2d 1953 (T.T.A.B. 1996) (dilution does not provide basis for cancellation or opposition); *cf. Person's Co. v. Christman*, 900 F.2d 1565 (Fed. Cir. 1990) (discussing traditional limit of review by Trademark and Trial Appeal Board). Congress recently amended the Lanham Act to permit trademark registrations to be opposed or canceled on the grounds of the dilution of the distinctiveness of a prior mark, but the PTO Examiners will not consider such grounds in their examination of an application.

3. Noting the international impetus for the Federal Dilution Act of 1995, *see Ringling Bros.-Barnum & Bailey Combined Shows v. B.E. Windows Corp.*, 40 U.S.P.Q.2d 1010, 1014 (S.D.N.Y. 1996), some U.S. courts have referred to non-U.S. dilution laws to support their interpretation of the scope of the U.S. statute. *See, e.g., Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Division of Travel Development*, 40 U.S.P.Q.2d 1303, 1305-1306 (E.D. Va. 1996).

4. If you were the head of the U.S. delegation negotiating a further revision to international trademark obligations, what additional protections of famous marks would you argue for, and what arguments would you use to persuade other nations of the merit of your position? Would an international obligation (or, depending upon your interpretation of Article 16(3), a more explicit international obligation) to protect certain marks against non-confusing uses that dilute the distinctiveness of a mark be appropriate? What is the purpose of such protection?

Frederick W. Mostert, WELL-KNOWN AND FAMOUS MARKS:

IS HARMONY POSSIBLE IN THE GLOBAL VILLAGE?
86 Trademark Reporter 103, 133-136 (1996)

In keeping with the requirements of modern commerce, the selling power, advertising function and commercial magnetism of a mark are protected against unauthorized use on non-competing goods or services in some jurisdictions. Such commercial magnetism is protected through an action to restrain trademark dilution. A dilution action is usually available where there is no likelihood of confusion and in the absence of competition in circumstances where there is an erosion of the communication or advertising function of a trademark.[63] A dilution action providing protection to trade dress against unauthorized use on competing goods is particularly needed in the United Kingdom where such an action is apparently not available. The "look-alikes" phenomenon demonstrates the lack of protection in this area. *See* in general Belinda Mills, *Own Label Products and the "Look-Alike" Phenomenon: A Lack of Trade Dress and Unfair Competition Protection?*, 3 EIPR 116 (1995).

The advertising function of a trademark is reflected in the ability of the mark to call to mind the specific product and to evoke associations of satisfaction and desirability with that product. For example, the COCA-COLA mark calls to mind the satisfaction and desirability associated with a pleasant-tasting, popular, dark-colored soft drink, while the ROLLS-ROYCE mark evokes notions of high quality in an automobile. The more exclusive such an association between the mark and the product in the public's mind, the stronger will be the attention of the public focused on the specific goods.

A claim of trademark dilution consequently provides trademark owners with a tool to prevent the parasitic use of the commercial magnetism of a trademark on non-competing goods. This form of legal action serves to forestall erosion of the exclusive association between a mark and the particular goods or services in relation to which it is used.[64] Translation by Gerhard Schricker, *Protection of Famous Trademarks Against Dilution in Germany*, 11 IIC 166, 171 (1980). Trademark dilution usually occurs by way of either blurring or tarnishing. In cases of blurring an erosion or watering down of the singularity and exclusivity of the trademark to call to mind a specific product is at issue. Obviously, the more a trademark is used on a wide variety of goods, becoming saturated in the process, the less the particular mark will call to mind and focus the public's attention on the plaintiff's particular product. If, for example, the TIFFANY mark has become well-known in connection with jewelry, and it is used on a plethora of other goods such as chocolates, clothing, a motion picture house, and a restaurant, the likelihood that the TIFFANY mark will still exclusively call to mind its owner's jewelry products becomes increasingly diminished.

Equally, the unauthorized use of a trademark in an offensive or unsavory context could tarnish the ability of the trademark to call to mind the associations of satisfaction and desirability linked with the particular product. In the "4711" perfume case the "4711" mark had become well-known in respect of the plaintiff's perfume. The German Federal Supreme Court had no difficulty in prohibiting the defendant, a sewer company, from using "4711" on a malodorous tank truck despite the fact that the numbers "4711" comprised the defendant's telephone number.

In order to be successful in a claim for trademark dilution, the plaintiff will usually be required to prove (1) that its mark has become famous or

possesses a distinctive quality capable of dilution, and (2) a likelihood that such mark will be diluted by "blurring" or "tarnishing."

NOTES AND QUESTIONS

1. Should all marks should be protected against "diluting" uses? Or should these enhanced quasi-property rights be restricted to a subset of marks? *See* Section 43(c) of the Lanham Act (protecting "famous marks" against "dilution of the distinctive quality of the mark.") Might this be the context in which to draw a distinction between "famous" marks and "well-known marks"?

2. For which acts of a defendant should an international anti-dilution agreement provide mark-owners with relief? *See* WIPO Model Law on Unfair Competition, art. 3 ("dilution of goodwill or reputation" means the lessening of the distinctive character or advertising value of a trademark, trade name or other business identifier, the appearance of a product or the presentation of products or services, or of a celebrity or well-known fictional character"). Under state laws in the U.S. prior to the enactment of the Federal Dilution Act of 1995, dilution causes of action generally rested upon proof of "blurring" or "tarnishment." The federal statute, although not explicit, has been interpreted as targetting similar acts. *See Ringling Bros.-Barnum & Bailey Combined Shows v. B.E. Windows Corp.*, 40 U.S.P.Q.2d 1010, 1016 (S.D.N.Y. 1996); *see also* 141 Cong. Rec. 19310 (daily ed. Dec. 29, 1995) (statement of Sen. Hatch). *But see* Robert C. Denicola, *Some Thoughts On The Dynamics of Federal Trademark Legislation And The Trademark Dilution Act of 1995*, 59 Law & Contemp. Prob. 75, 88-90 (1996) (explaining legislative evolution of 1995 statute and concluding that it should not extend to tarnishment claims); Miles J. Alexander and Michael K. Heilbronner, *Dilution Under Section 43(c) of the Lanham Act*, 59 Law & Contemp. Prob. 93, 121-125 (1996) (noting that, despite legislative history reference to tarnishment claims, the language of the federal statute may not support tarnishment claim). Is tarnishment a concept that is peculiarly culture or country specific and not susceptible to international harmonization? *Compare American Express Co. v. Vibra Approved Laboratories*, 10 U.S.P.Q.2d 2006 (S.D.N.Y. 1989) (enjoining use of American Express slogan "DON'T LEAVE HOME WITHOUT IT" on boxes of condoms) and *Mars v. Harlekin*, Bremen Appeal Court (March 12, 1992), *aff'd*, Federal Supreme Court (1994), GRUR 808 (1994) (enjoining use of slogan "A MARS a day for Sex-Sport and Play" that was similar to Mars slogan used to sell chocolate bars). Does that matter? Should a harmonization effort accept culturally driven deviations from an international norm provided the general standard of protecting against "tarnishment" is upheld? *Cf.* G.H.C. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION, at 144 (suggesting that the concept of "unfair competition" under the Paris Convention must be determined by the standards of each country in which protection is sought). Should such an effort provide only protection against blurring? *See* Robert C. Denicola, *Some Thoughts On The Dynamics of Federal Trademark Legislation And The Trademark Dilution Act of 1995*, 59 Law & Contemp. Prob. 75, 90 (1996) ("Our obligations under the TRIPS Agreement . . . extend at most to protection against unauthorized use of a mark as a trademark. Tarnishment of American marks

abroad unrelated to their use as another's trademark has never been a significant trade issue.")

3. Efforts to enact federal dilution laws met opposition on the grounds that such laws might impose burdens on the exercise of free speech. Such concerns are particularly aroused by "tarnishment"-type claims. *See, e.g., L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26 (1st Cir.), *cert. denied*, 483 U.S. 1013 (1987); *cf.* Robert C. Denicola, *Some Thoughts On The Dynamics of Federal Trademark Legislation And The Trademark Dilution Act of 1995*, 59 Law & Contemp. Prob. 75, 85-86 (1996) (noting that while protection against dilution of a mark's distinctiveness is self-limiting, the tarnishment rationale is not so limited and if used to provide relief from harm to the value of a trademark inflicted by unwelcome speech raises "substantial constitutional and public policy issues"). The federal statute attempted to accommodate free speech concerns in section 43(c)(4). *See* 15 U.S.C. § 1125(c)(4). It is not always clear, however, even within a single country, what uses are commercial and which implicate broader social or political concerns. *See San Francisco Arts & Athletics, Inc. v. United States Olympic Committee*, 483 U.S. 522 (1987) (upholding statutory rights of U.S. Olympic Committee in the word "Olympic" without regard to whether defendant's use was confusing) (enjoining use of term "Gay Olympics"); Miles J. Alexander & Michael K. Heilbronner, *Dilution Under Section 43(c) of the Lanham Act*, 59 Law & Contemp. Prob. 93, 115-119 (1996) (discussing "non-commercial" exemption in Federal Dilution Act). Given that many countries provide protection for freedom of speech that differs in nature and degree from that accorded in the United States, s*ee Matusevich v. Telnikoff*, 877 F. Supp. 1 (D.D.C. 1995) (declining to enforce British libel judgment because, if applied in the U.S., British libel law would violate the First Amendment), would it be possible to draft an international agreement on dilution that incorporated free speech limits acceptable to a broad group of countries?

4. Should other uses of marks be considered actionable? What might they be? *Cf. John Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39 (2d Cir. 1994) (apparently recognizing third — albeit undefinable — category of dilution); *Hormel Foods Corp. v. Jim Henson Prods.*, 73 F.3d 497, 507 (2d Cir. 1996) (interpreting *Deere* as a "recognition of a broad view of tarnishment"). Mostert suggests that the European Harmonization Directive, which premises a cause of action on "taking unfair advantage of the distinctiveness" of a mark, evidences a proprietary rights approach that extends protection beyond blurring and tarnishment. *See* Mostert, *Global Harmony*, *supra* at 136-137. In particular, Mostert mentions a decision of the German Federal Supreme Court enjoining a defendant from "taking an unfair advantage" of the Rolls Royce mark which the defendant wished to use for the promotion of whiskey products. *See Rolls Royce* case (German Federal Supreme Court, 9 December 1982) [1983] GRUR 247, 15 IIC 240 (1984). Is a showing of bad-faith determinative of whether a defendant has taken an unfair advantage of another's well-known mark? If the Rolls Royce mark had not been blurred or tarnished (such that the dilution of the mark, as traditionally conceived, was not at issue), to what extent does this decision confer a monopoly status upon the Rolls Royce mark?

5. Should the Federal Trademark Dilution Act of 1995, signed into law by President Clinton on January 3, 1996, be a model for international agreement

on the minimum protection of well-known marks against dilution?

1999 WIPO RESOLUTION ON WELL-KNOWN MARKS

It is clear from the materials above that although member countries are now required to implement common obligations under both Article 6*bis* of the Paris Convention and Article 16 of TRIPS, there is no consistency of approach, terminology or meaning in national laws. To remedy this divergence, in 1995 WIPO convened a Committee of Experts to consider all questions relevant to the correct application of Article 6*bis*. Upon the structural reorganization of WIPO, this work was taken on by the Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications (SCT). The SCT submitted a draft resolution on well known marks for consideration at a joint meeting of the General Assembly of WIPO and the Assembly of the Paris Union, and in September 1999 the Member States adopted a final version of that resolution.

The resolution, among other things, provides specific criteria for the definition of well-known marks. In part because neither Article 6*bis* of the Paris Convention nor Article 16 of TRIPS defines in detail the concept of a well known mark, different countries adopt quite disparate approaches to the protection of well known marks. In some countries, a numerical threshold of recognition (*e.g.*, 80% among relevant members of the public) is required to establish that a mark is well known; other countries apply less mathematical tests. And, as described above by Mostert, many countries have developed hierarchies of fame, distinguishing among marks that are "famous," "marks with a reputation" and "well known marks", to mention but a few of the concepts; in these countries, a different scope of rights attaches to a mark depending upon where it falls in the hierarchy.

Under the resolution, regard should be had to various non-exclusive factors including: the degree of knowledge or recognition of the mark in the relevant sector of the public, including actual and potential consumers, persons involved in channels of distribution of the goods in question, and business circles dealing with such goods; duration, extent and geographical area of use (or advertising or promotion) of the mark; duration and geographical area of any registrations for the mark; the record of enforcement of rights in the mark; and, any value associated with the mark. *Compare* 15 U.S.C. § 1125(c)(1) (listing factors to be considered in determining whether mark is "famous" for purpose of protection against dilution). Excerpts from the resolution, and from the debate in the Assembly that preceded its adoption, follow.

JOINT RESOLUTION CONCERNING PROVISIONS ON THE PROTECTION OF WELL-KNOWN MARKS
General Report of the Assemblies of the Member States of WIPO, 34th Annual Meeting, Doc. A/34/16 ¶¶ 171-183 (Sept. 1999)

The Chair stated that, during informal negotiations over the past week, it became clear that the following proposed text could form the basis of discussions:

Joint Recommendation

> The Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization (WIPO),
>
> Taking into account the provisions of the Paris Convention for the Protection of Industrial Property relative to the protection of well-known marks;
>
> Recommend that each Member State may consider the use of any of the provisions adopted by the Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications (SCT) at its Second Session, Second Part, as guidelines for the protection for well-known marks;
>
> It is further recommended to each Member State of the Paris Union or of WIPO which is also a member of a regional intergovernmental organization that has competence in the area of registration of trademarks, to bring to the attention of that organization the possibility of protecting well-known marks in accordance, mutatis mutandis, with the provisions contained herein.

The Delegation of Paraguay, speaking on behalf of the Latin American and Caribbean Group, supported the text of the Joint Recommendation, as an additional element to the highest level of protection for well-known marks. It considered that the provisions adopted by the Standing Committee on Trademarks would be useful in assuring recognition and protection of well-known marks. As some delegations of its Group had expressed objections to the content of specific provisions, . . . the delegation requested that these be reflected in the Report of the General Assembly. The [twelve] countries which did not join the consensus in the Standing Committee on Trademarks with respect to particular provisions are enumerated in paragraph 8 of the [Memorandum by the Director-General Regarding Joint Resolution Concerning Provisions on the Protection of Well-known Marks, Doc. A/34/13 (Aug. 4, 1999)].

The Delegation of Indonesia, speaking on behalf of the Asian Group, stated that its Group could support the amended Joint Recommendation. However, as many delegations still had reservations on specific provisions, it hoped that the Joint Recommendation could be reviewed at an appropriate time in the future to address these concerns.

The Delegation of Uganda, speaking on behalf of the African Group, stated that, while the proposed Joint Recommendation addressed some of its concerns, the Group supported the proposed text in the spirit of compromise.

The Delegation of Japan, speaking on behalf of Group B, stated that adoption of the Joint Recommendation was a significant step in the protection of well-known marks, and that its Group supported the text as suggested.

. . .

The Delegation of Argentina stated that it could join the consensus on the basis of the proposed compromise. The delegation did not consider the work of

the Standing Committee on the Law of Trademarks to have been satisfactory, as the provisions had been adopted with a large number of reservations. It mentioned that, from a technical point of view, . . . it considered that Article 6 (conflicting domain names) would have benefited from further consideration in additional sessions of the Committee. It considered that the expression "an essential part" in Article 6(1) could conflict with usual practices in the legitimate use of Internet domain names. The delegation considered that, from a legal point of view, no process whose purpose was to develop international provisions within the ambit of WIPO, or the provisions deriving therefrom, should establish links binding the Member States of the Organization to other conventions, agreements or treaties that were not under its jurisdiction, or with other intergovernmental organizations. Such links might seriously endanger the international legal responsibility of WIPO Member States, as well as create a legal insecurity generating the opposite results to those intended. The delegation of Argentina said that it subscribed to the concept expounded by another delegation in the course of the Assemblies' debates, to the effect that the creation of de facto norms should be avoided. . . .The delegation added that such approaches [as were being contemplated by the Organization regarding the "progressive development of the law"] require permanent transparency of the negotiation and decision-making processes, as well as a clear vision of the objectives. In this respect, the delegation reiterated the need for the WIPO General Assembly to define a mechanism, open to all Member States, within which the progressive development of law could be studied and discussed in order to reach solutions acceptable to all.

The Delegation of Spain recognized the importance of protection of well-known marks. Although it had difficulties with Article 4(1)(b) of the provisions, it could join the consensus concerning the Joint Recommendation.

The Delegation of Japan recalled that the provisions on well-known marks had been discussed for over five years by experts, and that industry circles needed to protect well-known marks. The delegation regretted that the original Joint Resolution was not adopted, but joined the consensus to contribute to the protection of well-known marks.

. . .

The International Bureau read out a statement submitted by the Delegation of Sweden, which welcomed the Joint Recommendation and considered it important. It noted that the provisions had the nature of a non-binding recommendation and, in general, supported its contents. However, the delegation could not support Article 2(2)(b), which stated that a mark shall be considered to be a well-known mark if it is well known in one relevant sector of the public, as defined in an earlier provision. The delegation preferred that this provision would use the word "may" instead of "shall". In addition, Sweden was not able, under its present legislation, to implement Article 6(2), requiring cancellation or transfer of a domain name, since its courts could not oblige the entity that registers domain names to carry out a transfer at this time.

The General Assembly and the Assembly of the Paris Union approved the following Joint Recommendation by consensus:

Joint Recommendation

The Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization (WIPO),

Taking into account the provisions of the Paris Convention for the Protection of Industrial Property relative to the protection of well-known marks;

Recommend that each Member State may consider the use of any of the provisions adopted by the Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications (SCT) at its Second Session, Second Part, as guidelines for the protection for well-known marks;

It is further recommended to each Member State of the Paris Union or of WIPO which is also a member of a regional intergovernmental organization that has competence in the area of registration of trademarks, to bring to the attention of that organization the possibility of protecting well-known marks in accordance, mutatis mutandis, with the provisions contained herein.

. . .

Article 2
Determination of Whether a Mark is a Well-Known Mark in a Member State

(1) (a) [Factors for Consideration] In determining whether a mark is a well-known mark, the competent authority shall take into account any circumstances from which it may be inferred that the mark is well known.

(b) In particular, the competent authority shall consider information submitted to it with respect to factors from which it may be inferred that the mark is, or is not, well known, including, but not limited to, information concerning the following:

1. the degree of knowledge or recognition of the mark in the relevant sector of the public;

2. the duration, extent and geographical area of any use of the mark;

3. the duration, extent and geographical area of any promotion of the mark, including advertising or publicity and the presentation, at fairs or exhibitions, of the goods and/or services to which the mark applies;

4. the duration and geographical area of any registrations, and/or any applications for registration, of the mark, to the extent that they reflect use or recognition of the mark;

5. the record of successful enforcement of rights in the mark, in particular, the extent to which the mark was recognized as well known by competent authorities;

6. the value associated with the mark.

(c) The above factors, which are guidelines to assist the competent authority to determine whether the mark is a well-known mark, are not pre-conditions for reaching that determination. Rather, the determination in each case will depend upon the particular circumstances of that case. In some cases all of the factors may be relevant. In other cases some of the factors may be relevant. In still other

cases none of the factors may be relevant, and the decision may be based on additional factors that are not listed in subparagraph (b), above. Such additional factors may be relevant, alone, or in combination with one or more of the factors listed in subparagraph (b), above.

(2) (a) [Relevant Sector of the Public]. Relevant sectors of the public shall include, but shall not necessarily be limited to:

(i) actual and/or potential consumers of the type of goods and/or services to which the mark applies;

(ii) persons involved in channels of distribution of the type of goods and/or services to which the mark applies;

(iii) business circles dealing with the type of goods and/or services to which the mark applies.

(b) Where a mark is determined to be well known in at least one relevant sector of the public in a Member State, the mark shall be considered by the Member State to be a well-known mark.

(c) Where a mark is determined to be known in at least one relevant sector of the public in a Member State, the mark may be considered by the Member State to be a well-known mark.

(d) A Member State may determine that a mark is a well-known mark, even if the mark is not well known or, if the Member States applies subparagraph (c), known, in any relevant sector of the public of the Member State.

(3) (a) [Factors Which Shall Not Be Required] A Member State shall not require, as a condition for determining whether a mark is a well-known mark:

(i) that the mark has been used in, or that the mark has been registered or that an application for registration of the mark has been filed in or in respect of, the Member State;

(ii) that the mark is well known in, or that the mark has been registered or that an application for registration of the mark has been filed in or in respect of, any jurisdiction other than the Member State; or

(iii) that the mark is well known by the public at large in the Member State.

(b) Notwithstanding subparagraph (a)(ii), a Member State may, for the purpose of applying paragraph (2)(d), require that the mark be well known in one or more jurisdictions other than the Member State.

Article 3
Protection of Well-Known Marks; Bad Faith

(1) A Member State shall protect a well-known mark against conflicting marks, business identifiers and domain names, at least with effect from the time when the mark has become well known in the Member State.

(2) Bad faith may be considered as one factor among others in assessing competing interests in applying [Articles 3-6] of these Provisions.

Article 4
Conflicting Marks

(1) (a) A mark shall be deemed to be in conflict with a well-known mark where that mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration, liable to create confusion, of the well-known mark, if the mark, or an essential part thereof, is used, is the subject of an application for registration, or is registered, in respect of goods and/or services which are identical or similar to the goods and/or services to which the well-known mark applies.

(b) Irrespective of the goods and/or services for which a mark is used, is the subject of an application for registration, or is registered, that mark shall be deemed to be in conflict with a well-known mark where the mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration of the well-known mark, and where at least one of the following conditions is fulfilled:

(i) the use of that mark would indicate a connection between the goods and/or services for which the mark is used, is the subject of an application for registration, or is registered, and the owner of the well-known mark, and would be likely to damage his interests;

(ii) the use of that mark is likely to impair or dilute in an unfair manner the distinctive character of the well-known mark;

(iii) the use of that mark would take unfair advantage of the distinctive character of the well-known mark.

(c) Notwithstanding Article 2(3)(a)(iii), for the purpose of applying paragraph (1)(b)(ii) and (iii), a Member State may require that the well-known mark be well known by the public at large.

(d) Notwithstanding paragraphs (2) to (4), a Member State shall not be required to apply:

(i) paragraph (1)(a) to determine whether a mark is in conflict with a well-known mark, if the mark was used or registered, or an application for its registration was filed, in or in respect of the Member State, in respect of goods and/or services which are identical or similar to the goods and/or services to which the well-known mark applies, before the well-known mark became well known in the Member State;

(ii) paragraph (1)(b) to determine whether a mark is in conflict with a well-known mark, to the extent that the mark was used, was the subject of an application for registration, or was registered, in or in respect of the Member State for particular goods and/or services, before the well-known mark became well known in the Member State;

except where the mark has been used or registered, or the application for its registration has been filed, in bad faith.

(2) If the applicable law allows third parties to oppose the registration of a mark, a conflict with a well-known mark under paragraph (1)(a) shall constitute a ground for opposition.

(3) (a) The owner of a well-known mark shall be entitled to request, during a period which shall not be less than five years beginning from the date on which the fact of registration was made known to the public by the Office, the

invalidation, by a decision of the competent authority, of the registration of a mark which is in conflict with the well-known mark.
(b) If the registration of a mark may be invalidated by a competent authority on its own initiative, a conflict with a well-known mark shall, during a period which shall not be less than five years beginning from the date on which the fact of registration was made known to the public by the Office, be a ground for such invalidation.

(4) [Prohibition of Use] The owner of a well-known mark shall be entitled to request the prohibition, by a decision of the competent authority, of the use of a mark which is in conflict with the well-known mark. Such request shall be admissible for a period which shall not be less than five years beginning from the time the owner of the well-known mark had knowledge of the use of the conflicting mark.

(5) [No Time Limit in Case of Registration or Use in Bad Faith] (a) Notwithstanding paragraph (3), a Member State may not prescribe any time limit for requesting the invalidation of the registration of a mark which is in conflict with a well-known mark if the conflicting mark was registered in bad faith.

(b) Notwithstanding paragraph (4), a Member State may not prescribe any time limit for requesting the prohibition of the use of a mark which is in conflict with a well-known mark if the conflicting mark was used in bad faith.

(c) In determining bad faith for the purposes of this paragraph, the competent authority shall take into consideration whether the person who obtained the registration of or used the mark which is in conflict with a well-known mark had, at the time when the mark was used or registered, or the application for its registration was filed, knowledge of, or reason to know of, the well-known mark.

(6) [No Time Limit in Case of Registration Without Use] Notwithstanding paragraph (3), a Member State may not prescribe any time limit for requesting the invalidation of the registration of a mark which is in conflict with a well-known mark, if that mark was registered, but never used.

. . .

Article 6

Conflicting Domain Names

(1) [Conflicting Domain Names] A domain name shall be deemed to be in conflict with a well-known mark at least where that domain name, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration of the well-known mark, and the domain name has been registered or used in bad faith.
(2) [Cancellation; Transfer] The owner of a well-known mark shall be entitled to request, by a decision of the competent authority, that the registrant of the conflicting domain name cancel the registration, or transfer it to the owner of the well-known mark.

NOTES AND QUESTION

1. In enacting the Federal Trademark Dilution Act of 1995, Congress suggested that TRIPS mandated protection against dilution for famous marks. *See* H.R. Rep. 104-374, 104th Cong., 1st Sess., 4 (1995). The articles in the resolution explicitly require dilution protection for well known marks in language that goes beyond Article 16(3) of TRIPS. See Article 4(1)(b)(ii)-(iii), Draft Provisions on the Protection of Well Known Marks 19-22 (Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications, Second Session, Second Part, June 7-12, 1999) (May 10, 1999, WIPO Doc. SCT/2/8) (requiring protection against uses that are likely to "impair or dilute in an unfair manner the distinctive character of the well know mark," and against uses that would "take unfair advantage of the distinctive character of the well known mark"). The Notes accompanying the draft provisions indicate that these provisions are intended to catch not only acts of blurring and tarnishment but also "free riding" on the goodwill of the well known mark. *See id.* at 21.

2. Although the SCT believed it preferable in the long term that the provisions be incorporated in a treaty, the resolution procedure was used in order to permit WIPO to react more quickly to developments and to avoid what the Organization sees as the lengthier process of drafting treaties. While a resolution is non-binding on member states, WIPO officials have expressed the view that members will be "under a moral obligation" to comply with the recommendations contained in the resolution. Should the United States implement the changes suggested by the resolution? What changes in U.S. law would be required?

3. Although this resolution takes the form of non-binding "soft" law, its provisions have been given significant play by intellectual property holders seeking to obtain protection for well-known marks in ICANN discussions.

4. Does the content of this resolution, and the debate after which it was adopted, provide clarity to doubts that you may have had regarding the interpretation of Article 6bis of Paris and Article 16 of TRIPS?

d. The TRIPS Agreement

Paul J. Heald, TRADEMARKS AND GEOGRAPHICAL INDICATIONS: EXPLORING THE CONTOURS OF THE TRIPS AGREEMENT,
29 Vand. J. Transnat'l L. 635 (1996)

. . . In general, . . . the most substantial changes in trademark protection [required by TRIPS] will occur outside the United States, brought about by augmented substantive standards and vastly improved enforcement procedures. The TRIPS trademark sections could go further to ensure the free flow of goods and services, but, overall, U.S. businesses and consumers should be pleased.

. . .

[Substantive Standards]

Part I of the TRIPS Agreement requires members of the World Trade Organization (WTO) to adopt the minimum standards of protection detailed in the Paris Convention [Art. 1] and Part II of the Agreement. [Art. 2]. It also allows member states to implement trademark protection beyond the minimum standards, but requires that each member state must extend the same augmented rights to non-nationals of other member states as to its nationals.[65] [The Agreement] not only prevents a member from preferring its own citizens over non-nationals from other member states but also generally prohibits discrimination between nationals of different member states.[66] Therefore, with some exceptions, any advantage granted "by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members."

. . .

1. *Definition of "Trademark"*

Unlike the Paris Convention, Article 15(1) of the TRIPS Agreement begins its trademark provisions with a broad definition of "protectable subject matter" that includes "[a]ny sign . . . capable of distinguishing . . . goods or services of one undertaking from those of other undertakings . . . ." The definition of "signs" includes not only word marks but also "personal names, letters, numerals, figurative elements, and combinations of colors." The requirement that a mark be "capable of distinguishing" goods clearly excludes generic "marks" from the definition. Unfortunately for those seeking protection for their trade dress, Article 15 does not include product shape or packaging in its definition, although some protection may be available through the incorporation of the unfair competition principles of the Paris Convention.

2. *Eligibility for Registration*

Article 15 also makes "signs," as therein defined, prima facie eligible for trademark registration. Member states may, however, condition registration of descriptive marks upon proof of secondary meaning, and they may require that a mark be "visually perceptible." Article 15 also requires other factors relevant under the Paris Convention to be considered in the decision to register. Therefore, registration of certain flags and emblems is prohibited, and member states may deny registration to deceptive marks, to those confusingly similar to marks already properly registered by another,[67] and to those that "designate the kind, quality, intended purpose, value, [and] place of origin of the goods." Paris Convention, art. 6*quinquies*(B)(2). . . .

. . .

3. *Rights of Registrants*

[Article 16 sets out the rights that must be accorded a trademark owner, but other provisions permit member states to recognize important exceptions to

those rights. For example, under Article 17], a member state may permit a fair use of a mark that consists of descriptive terms. . . .

. . .

Other limitations apply through the incorporation of the Paris Convention. For example, a registered trademark can be subject to preexisting rights established by another entity in the country in which protection is claimed.[68] This is consistent with the Lanham Act provision that if a business has used a mark in good faith in the United States, then the rights acquired by a subsequent registration of the mark by another entity are subject to the prior use. This result is permitted by the TRIPS Agreement but not dictated by it—a member state may establish a strict first-to-file system. . . .

4. *Assignments and Licensing*

Unlike the Paris Convention and the Lanham Act, the TRIPS Agreement unequivocally grants trademark owners the right to assign their trademarks "with or without the transfer of the business to which the trademark belongs."[69] In some cases, Article 21 could be interpreted to allow the assignment of a trademark without its attendant goodwill; under the Lanham Act and at common law, this transaction would result in the abandonment of the mark. For example, the owner of the mark "Mondo-Choc Cookies" might sell its mark without transferring the cookie recipe (a trade secret), the unique machines necessary to make the cookies, or any other of its assets (*i.e.*, all the things that constitute the owner's "business"). In this scenario, the goodwill attendant to the trademark has not been transferred by the owner; the assignment of the mark, therefore, is void as against public policy and the mark is abandoned. Article 21 of the TRIPS Agreement may suggest a different result.[70] Congress has not amended the Lanham Act to provide for such assignments.

Finally, [Article 21 of] the TRIPS Agreement prohibits compulsory licensing of trademarks, something that has never been allowed under U.S. domestic law, but which was permissible under the Paris Convention.[71] Members are also prohibited [by Article 20] from requiring a foreign trademark to be tied to a domestic mark in order to be registered.

. . .

[Enforcement Provisions]

Several commentators have noted that the enforcement provisions of the TRIPS Agreement are the most promising sections in the Agreement. Under [Article 9(6) of] the Paris Convention, a country was under no obligation to enact legislation permitting seizure or prohibiting importation of infringing goods. [Article 41(1)] of the TRIPS Agreement mandates that "Members shall ensure that enforcement procedures . . . permit effective action against any act of infringement . . . covered by this Agreement," including injunctive relief, money damages, and strong border control measures. Members must also provide for criminal prosecution—including seizure, forfeiture, and destruction of infringing goods—in cases of willful trademark counterfeiting. The procedures and safeguards for stopping infringing goods at the border are spelled out in detail

and should greatly improve a trademark owner's ability to stop the flow of infringing goods in international commerce.

. . .

II. *A Normative Critique of the TRIPS Agreement*

No international agreement can be perfect, and the TRIPS accord is no exception. While some portions of the Agreement deserve applause, others are less satisfying.

A. Applause

The TRIPS Agreement is good news for trademark owners around the world. Under the Paris Convention, the substantive levels of protection were lower, enforcement procedures were not absolutely required, and no credible body existed to resolve inter-sovereign disputes. TRIPS establishes substantive levels of protection that are at least equal to those of the Lanham Act, and requires adequate enforcement mechanisms to be put in place in all member states. Best of all, the WTO monitors a dispute resolution process, providing a forum for the sanction and coercion of noncomplying nations.

One should not expect official noncompliance to be an overwhelming problem. The protection afforded trademarks under TRIPS does not merely benefit corporations in a few wealthy nations, but prevents marketplace confusion that is detrimental to interests of consumers in every nation. People who buy jeans in Brazil, Thailand, and Poland, for example, should all benefit from increased honesty in labeling. Even a country that exports significant amounts of counterfeit goods has incentives to comply, given the benefit of increased protection for its own consumers. Unlike copyright and patent protection, which impose high, short-term costs on consumers, trademark law increases consumer wealth by improving consumer information. The myth that trademark protection under a confusion rationale results in higher prices (or other monopolistic practices to the detriment of consumers) was convincingly exploded long ago. Of course, corruption of officials by traders in counterfeit goods may be a problem, and locales that remain unreasonably dubious about the benefits of protection may resist. . . .

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2. Absence of Use Requirements

One other disappointing aspect of the TRIPS Agreement, and one that is unlikely to be changed, is the movement toward registration of trademarks without use. Although a member state is not required to permit registration of trademarks that have never been, and may never be, used in commerce, neither is it required to make use a prerequisite for registration. [Art. 15(3)]. The economic rationale for requiring use before registration is quite compelling. Without a use requirement, an incentive exists for entrepreneurs to register large numbers of trademarks and license them to others.[72] As Landes and Posner note, "The 'banking' of trademarks in countries such as Japan that have a pure

registration system does occur and has made it more costly to enter markets in those countries." As noted above, GATT is supposed to make the penetration of new goods into markets easier, not more difficult. Furthermore, basing the property right on use is consistent with the underlying social function of trademarks—identifying and distinguishing goods. When a good is not available for sale, the trademark cannot confer a benefit. "Thus, conditioning trademark rights on use is a way of limiting the use of scarce enforcement resources to situations in which the rights in question are likely to yield net social benefits."[73] Requiring use before registration would probably generate an efficiency gain that would benefit international markets.

III. Conclusion

The TRIPS Agreement is a significant improvement over prior ineffectual regimes governing the international protection of intellectual property. Although TRIPS' sections on geographical indications create uncertainty and TRIPS fails to endorse gray market goods or to require that trademark registration be predicated on actual use in commerce, the Agreement mandates high substantive standards and effective enforcement that should foster both the development and movement of goods and technology. Although U.S. trademark law is still not quite in compliance with all of the mandates of the TRIPS Agreement, its deviations from the mandated standards are relatively unimportant. The fact that Congress felt it had to make only two minor amendments to the Lanham Act indicates the great extent to which the TRIPS Agreement mirrors U.S. federal law. As a result, in the next ten years,[74] U.S. trademark owners doing business overseas will be encountering legal systems that look more and more like their own.

NOTES AND QUESTIONS

1. Article 15(3), while permitting registration (or renewal) to be conditioned on actual use of the mark in commerce, prohibits use as a prerequisite to an application. Member states must therefore adopt either a registration-based system or permit intent-to-use applications. Article 15 requires member states to afford applicants at least three years to make any required use of the mark before the application can be rejected for non-use. Compare Paris Convention Art. 5(C)(1) (requiring "reasonable period). Does the Lanham Act comply with this provision? See 15 U.S.C. § 1051(d). *Compare* Trademarks Act (Canada) § 40(3) (declarations of use to be filed by later of six months after Notice of Allowance and three years after date of application). A former Deputy Commissioner has suggested that the trademark bar consider whether the period for which intent-to-use applicants might extend their obligation to file a statement of use should be shortened. *See* Phillip G. Hampton, *Remarks to All Ohio Annual Institute on Intellectual Property* (Cincinnati, Sept. 11, 1997). What alternatives might the U.S. PTO. consider, short of reducing the period during which to file a statement of use, that would encourage earlier attention to Notices of Allowance while complying with obligations under TRIPS?

2. Article 19 of the TRIPS Agreement requires that if "use is required to

maintain a registration, the registration may be canceled only after an uninterrupted period of at least three years of non-use." As a consequence, the abandonment provision in the Lanham Act, under which a set period of nonuse gives rise to a presumption of abandonment, was, amended from two to three years. This presumptive period does not however wholly define the approach of U.S. law to abandonment through nonuse. In particular, the definition provides that abandonment occurs when "use has been discontinued with intent not to resume such use." That intent may be presumed after three years, but it may be proceed before that period if the requisite intent exists. Does the Lanham Act violate Article 19 of TRIPS? *See* Heald, *supra* at __ (arguing that "given that most cancellations for abandonment proceed under the statutory presumption rather than after proof of intent to abandon, this incongruence between TRIPS and U.S. federal law may not prove particularly troublesome").

3. Article 19(1) requires non-use to be excused when it is the result of circumstances "arising independently of the will of the" trademark owner that are "obstacles to the use of the trademark", such as import restrictions or other government requirements for the goods upon which the trademark is used. Did this provision require the outcome in the *McDonalds* case discussed in Chapter II? Does it require a different result in the *Hugo Boss* case?

4. The expansion in protectable trademark subject-matter that culminated in the U.S. in the *Qualitex* decision has been reflected at the international level. Article 15 of the TRIPS Agreement provides that:

> Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, shall be eligible for registration as trademarks. . . . Members may require, as a condition of registration, that signs be visually perceptible.

See also EC Trademark Harmonisation Directive, Council Directive 89/104, [1989] O.J. L40/1, Art. 2 ("A trademark may consist of any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertaking."); EC Trademark Regulation, Council Regulation 40/94, [1994] O.J. L11/1, Art. 4. Should (or could) these definitions of trademark subject-matter be any broader? *Cf. In re Clarke*, 17 U.S.P.Q.2d 1238 (T.T.A.B. 1990) (olfactory marks may be registered); Sumitomo Rubber Indus., Trade Mark No. 6,106,1361 (UK) (registration of smell of roses applied to tires), reported in Sweet & Maxwell's European Trade Mark Litigation Handbook 565 (Isabel Davies ed. 1998). Over 60 countries now permit registration of three dimensional marks as trademarks. *See* Thomas Helbling, *Shapes as Trade Marks?—The Struggle to Register Three-Dimensional Signs: A Comparative Study of United Kingdom and Swiss Law*, 1997 Intell. Prop. Q. 413, 413. Why did the definition of trademark in TRIPS not include product design, as both the

United States and the European Union had proposed in its respective draft of the provision?

5. Refusal of protection is permissible only to the extent that the grounds do not conflict with the provisions of the Paris Convention. *See* art. 15(2).Thus, if registration in the country in question would infringe on the prior rights of third parties, if the mark lacks distinctiveness or consists exclusively of descriptive terms, or if the mark is contrary to accepted principles of morality or public order, or if it would deceive the public, registration my be denied. *See* Paris Convention Art. 6*quinquies*(B)(1)-(3).

6. Article 15 of TRIPS requires that Member States publish trademarks that are registered and provide an opportunity for cancellation proceedings; but it does not mandate the type of pre-issuance opposition proceedings available under Section 13 of the Lanham Act. The procedural rules governing application, registration, and cancellation proceedings are largely left to member states, subject to compliance with the general principles stated in Article 62(1) to (5) and Article 41. Article 5 of TRIPS provides that national treatment and MFN status do not apply to procedures for the acquisition and maintenance of rights outlined in treaties concluded under auspices of the WIPO (*i.e.*, the Madrid Agreement, the Madrid Protocol or the Trademark Registration Treaty).

7. National approaches to licensing issues are left largely unregulated by TRIPS Article 20 permits member states to require mark owners to indicate that the product has been manufactured by a licensee or other party. *See also* Art. 40(2) (members may specify in their national legislation appropriate measures to prevent or control licensing practices that restrict competition, have adverse effects on trade, or impede the transfer or dissemination of technology). Under Article 19(2), however, use of a trademark by another person shall be recognized as a valid use on condition it is done under the control of the trademark owner (*e.g.*, by a licensee or related company). Licensing rules are also subject to the national treatment provisions, such that foreign licensees cannot be subjected to more burdensome conditions than domestic licensees. Finally, article 21 prohibits compulsory licensing.

The public official charged with enforcement of the Canadian Competition Act, RSC 1985, c C-34, recently sought to compel a trademark owner to license use of its trademark as part of the remedies for an alleged violation of competition law. *See Director of Investigation and Research v. Tele-Direct (Publications) Inc., et al*, (1997) 73 CPR (3d) 1. Tele-Direct owned the marks YELLOW PAGES and WALKING FINGER for advertising services and telephone directories, and published telephone directories for telephone companies throughout Canada. The competition authorities asserted that by refusing to license use of the marks to selected competing suppliers of advertising services, Tele-Direct was abusing its trademark rights and engaging in anticompetitive acts. The competition authorities sought an order that the mark owner "license, at the request of independent advertising agencies, including consultants, and on commercially reasonable terms and conditions, the trademarks registered for [the mark owner's] own use in relation to telephone directories." These efforts were rejected by the Canadian Competition Tribunal. The Tribunal concluded that a refusal to license a trademark to certain persons was not an anticompetitive act; indeed, section 79(5) of the Canadian

Competition Act explicitly provides that the mere assertion of an intellectual property right, even if exclusionary in effect, did not of itself amount to a misuse of trademark. The Tribunal accordingly did not need to consider whether, if it had found selective licensing to be a violation of the Competition Act, it had jurisdiction to grant the relief requested. It did note, however, that the selective licensing of trademarks was consistent with the statutory trademark scheme. For a discussion of the *Tele-Direct* decision, *see* Sheldon Burshtein, *Trademark Owners May Choose Licensees in Canada*, TRADEMARK WORLD 16 (Mar. 1998). Would the grant of the relief requested by the Canadian competition authorities if ordered against a foreign trademark owner be a violation of TRIPS? See Article 21. What if the relief were ordered against a Canadian trademark owner? How, without using compulsory licensing, might trademark law address the potentially anticompetitive effects of granting rights in the mark YELLOW PAGES for telephone directories? (You might consider whether YELLOW PAGES and the WALKING FINGERS logo for telephone directories are protected in the U.S. *See BellSouth Corp. v. White Directory Pubs. Inc.*, 49 U.S.P.Q.2d 1801 (M.D.N.C. 1999).) Should the means by which the potentially anticompetitive effects of mark ownership is addressed affect analysis of TRIPS compliance?

Similar efforts by the U.S. competition authorities to compel compulsory licensing of trademarks were rebuffed twenty years earlier. *See In re Borden*, 92 F.T.C. 669 (1976), *rev'd*, 92 F.T.C. 807 (1978); *see generally* F.M. Scherer, *The Posnerian Harvest: Separating Wheat From Chaff*, 86 YALE L.J. 974 (1977). Why has the U.S. Court of Appeals for the Seventh Circuit called the notion of compulsory licensing of trademarks "absurd"? *See Jack Walters & Sons Corp. v. Morton Bldg., Inc.*, 737 F.2d 698, 704 (7th Cir. 1984). Copyrights and patents may be subject to compulsory licensing; what about trademark law is different? The Canadian immunization of liability for mere assertion of intellectual property rights is largely replicated in the United States, *see Professional Real Estate Investors v. Columbia Pictures*, 508 U.S. 49 (1993), but this does not mean that anticompetitive provisions attached to a trademark license will be free from challenge under U.S. law. Moreover, the Lanham Act does enables defendants to resist an infringement action on the ground that the trademark owner is using the mark in such a way as to violate the antitrust laws. *See* 15 U.S.C. § 1083(b)(7). This defense has, however, rarely been invoked. *See* Daniel M. McClure, *Trademarks and Competition: The Recent History*, 59 LAW & CONTEMP. PROB. 13, 25 n.80 (1996).

8. Article 20 of TRIPS provides that "the use of a 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 of one undertaking from those of other undertakings." If the European Commission, as part of its efforts to regulate health and safety, informed pharmaceutical companies that to market drugs in the European Union they must own a trademark common to all countries of the EC (and point to the Community Trademark Regulation when objection is made), would Article 20 of TRIPS be violated? Under Article 20, can member states require that any trademark used on tobacco be accompanied by a health warning? Can a member state prohibit the use of trademarks commonly associated with tobacco on goods sold to

minors? If the Mexican drug law effectively declared pharmaceutical trademarks as generic (permitting or requiring pharmacists to fill the prescription for a branded drug with a generic equivalent), would this violate TRIPS?

9. Section 10 of the Lanham Act provides that "a registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark." Does this provision comply with Article 21? *See* Art. 21 (provides that an owner must be free to assign his trademark, with or without transferring the business to which the trademark belongs). Might it violate Article 21 in certain circumstances but not others?

10. The provision in Article 17 that allows states to permit third parties use of a trademark in cases of fair use or for use as a descriptive term is conditioned upon such provisions taking into account the legitimate interests of the trademark owner and of third parties. What does this mean?

III. THE PARIS CONVENTION

C. INDUSTRIAL DESIGNS

Unlike patents, copyrights, or trademarks, the regulation of design protection at the international level is quite minimal. Because designs are potentially protectable in some countries not only under a design code proper, but also under other forms of intellectual property, provisions are scattered throughout a variety of intellectual property treaties without significant concentration in any one. In this Section, we review those provisions that do exist in multilateral treaties, including in the regional context (such as the EU) where greater and more substantial progress has occurred of late. Treaties establishing mechanisms for obtaining design rights on a multinational basis—principally the Hague Agreement—are dealt with separately *infra* Chapter VIII.

1. MULTILATERAL AGREEMENTS

Annette Kur, TRIPS AND DESIGN PROTECTION, in FROM GATT TO TRIPS: THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 141, 144-156 (Beier & Schricker eds. 1996)

II. International Design Protection Before TRIPS

1. Paris Convention

Industrial designs are included among the objects of industrial property protection covered by Art. 1(2) of the Paris Convention. Pursuant to Art. 5quinquies of this Convention all countries of the Union are obliged to grant protection to industrial designs and models. Yet this not interpreted so as to mean that protection must be granted on the basis of *sui generis* legislation; it is sufficient that it is accorded by other means—typically under copyright law or as protection against unfair competition.

[Article 5B] prohibits . . . rights in industrial designs or models [from being] declared forfeited as a result of either failure to work or importation of corresponding products.[75] In contrast, such a prohibition does not exist in relation to compulsory licenses. . . .

. . .

2. Revised Berne Convention (RBC)

As a result of the hybrid nature of design protection, the relevant regulations cannot be found in the Paris Convention alone, rather, they are also anchored in copyright conventions — here, however, not under the category of industrial designs and models, but under that of applied art. This category of works protected by copyright has been included in . . . Article 2(1) RBC since 1908 (Berlin). Furthermore, during the Brussels conference (1948) an attempt

was made to establish as a matter of principle that works of applied art should not be excluded from copyright protection *per se,* even where they are used industrially; yet these efforts failed in the face of opposition inter alia from Italy and the United Kingdom. Instead, it was established that each national legislature was free to determine whether, and to what extent, utilitarian objects may obtain protection on the basis of copyright law. Where the national legislature grants protection to works of applied art, a minimum 25-year term of protection is obligatory by virtue of Art. 7(4) RBC.

The substantive reciprocity clause of Art. 2(7) RBC also stems from the absence of an internationally effective obligation to grant copyright protection to industrially utilized designs: where a member of the Berne Union grants copyright protection to works of its nationals in addition to specific design protection,[76] this protection must only be extended to the works of foreigners who are nationals of another Berne Union country if it would also be possible to claim copyright protection for the same work in such foreigners' country of origin. This clause was of practical significance, for example, in relations between Italy (which practically excludes copyright protection for products that are eligible for design protection) and France (where designs enjoy supplementary full copyright protection on the basis of the "unité de l'art" doctrine). . . .

3. Universal Copyright Convention (UCC)

In contrast to the RBC, the text of the Universal Copyright Convention does not contain an explicit reference to works of applied art within the context of its (non-exclusive) catalogue of protected works. However, it may be inferred from Art. IV(3) of the UCC that this Convention proceeds from the possibility of granting copyright protection to such works: according to this provision the term of protection for works of applied art must run for at least 10 years.

4. Agreement of The Hague Concerning Industrial Designs

Although the possibility of pure copyright protection for designs is not excluded by international law and is still practised in a number of countries, the large majority of countries grants design protection primarily on the basis of specific legislation that normally requires entry in the register or deposit of the design as a prerequisite of protection. For these states the Agreement of The Hague offers the possibility of a central deposit of the design at the WIPO in Geneva and thus — subject to the eligibility of the design for protection under national law — of obtaining protection in all or selected contracting states. [The Hague Agreement is discussed in detail *infra* Chapter V.]

III. Provisions of the TRIPS Agreement Relevant to Design Law

1. Copyright

. . .

Apart from [the obligation to comply with the provisions of the Paris and Berne Conventions], the copyright regulations in Part II, Section 1 of the TRIPS Agreement do not contain any statement on the protection of industrially utilized works of applied art. The TRIPS text therefore does not give rise to any new developments regarding the copyright protection of designs . . . The Members are not prevented from granting protection to such works on the exclusive basis of specific design protection legislation, excluding completely a cumulative claim to copyright protection. To an even lesser degree are they prevented from making copyright protection for works of applied art dependent upon extremely strict requirements, whether with regard to the artistic qualification of the work [e.g., in Germany], to its "separability" from the utilitarian object in which it is embodied [e.g., U.S. or Italian law], or to the number of permissible copies of the work, etc. [e.g., U.K. or Irish law].

2. Specific Design Protection

(a) Basis of the Right

Specific provisions on the protection of industrial designs and models are contained in Part II, Section 4 (Arts. 25 and 26) of the TRIPS Agreement. They represent a very brief regulation of the issue. The provisions leave open the question as to how the right to a design shall come into existence, in particular whether this can only take place by means of registration or also through use of the design.

Where the right is obtained by means of registration, the regulations of Article 62 must be respected. The necessary formalities must be kept at a reasonable level (Art. 62(1)); moreover, . . . the grant or registration of the right [must be] possible within a reasonable period of time (Art. 62(2)). The spirit of this provision conflicts to a certain extent with the procedures of registration of design rights in the US and Japan. [I]n these countries registration does not take place until after sometimes lengthy examinations, which, especially with regard to designs with a short life-span, can entail the risk of a total depreciation in the value of the rights granted.

. . .

(c) Individual Provisions

* Art. 25(1), first/second sentences (subject-matter of protection, requirements for protection)

The text of Art. 25(1) obliges the Members to protect independently created designs, insofar as they fulfill the prerequisites of novelty or originality. This provision does not define the term design nor [the types of product whose

design is covered by the provisions], thus leaving scope for individual national definitions.

As a matter of principle, the wording of Art. 25(1), first sentence, requires subjective novelty of the design (it must be 'independently created'); it is only in this case that the international obligation to protect industrial designs takes effect. In addition to the requirement of independent creation,[77] novelty and originality are mentioned as principal requirements for protection. It is argued that by listing these protection criteria in alternative form ("... that are new or original"), the negotiating parties intended to make clear that as a matter of principle [Members] should be prohibited [from imposing] cumulative requirements (i.e. "new *and* original"). This was intended to ensure that the threshold for protection is not raised to an exceedingly high level by TRIPS Members.[78] It seems doubtful however whether the manner in which this intent was expressed in Art. 25(1) will be sufficient to encompass the underlying objectives. According to Art. 25(1), second sentence, it is still possible for Members to deny protection if the design does not differ *significantly* from what was known previously; and the application of this criterion can in practice amount to a rather high threshold for protection. Moreover, the wording of the second sentence allows the Member countries to continue dividing the assessment of protectability into two "logical steps": namely to assess whether a given design is already known (assessment of novelty) and subsequently to ask whether a sufficient difference from the relevant comparative material can be established (assessment of originality/ individual character). The only consequence of Art. 25(1), first sentence, if any, will therefore be that in future these two steps will have to be covered by a single term — be it "novelty" or "originality."

Other issues have been left undecided: for example whether an absolute or in any respect (timewise, geographical,[79] or with reference to the knowledge of the participating expert circles) relative meaning of the term novelty shall be applied. Finally, as mentioned above, it is left to the discretion of the national legislature whether a strict or rather generous standard will apply as regards the threshold for acquiring protection: whilst by adding the word "significantly" it is clarified that a high threshold would also comply with Art. 25(1), the provision on the other hand does not contain anything that would prevent national legislatures from coming very close to a requirement of mere subjective novelty.

The wording of Art. 25(1) does pose a special problem for US law, in which the patent law criterion of non-obviousness is applied as the protection requirement for industrial designs. In this respect, in the literature reference is made to footnote 5 concerning Art. 27(1) of the TRIPS Agreement, where, with respect to patentability, it is stated explicitly that a Member country may interpret the term "inventive step" in the sense of "non-obvious." Owing to the fact that such a reference is missing in Art. 25, which regulates the protection requirements for designs, it is concluded that in future in US law only novelty or originality, yet not non-obviousness, may be required as protection criteria in design law.[80]

* Art. 25(1), third sentence (exclusion from protection of functionally dictated designs)

The principle that design protection, being restricted to the exterior appearance of products, necessarily meets its limits where it would lead to protection of technical ideas, . . . is generally accepted and applies to most design laws — whether in the form of explicit regulation or as a principle developed in case law. However, the practical interpretation of this principle is subject to considerable variations.

In its broadest form, this principle is applied in order to limit design protection to those utilitarian objects the "raison d'être" of which essentially lies in pleasing the observer's eye, *e.g.* to fabric designs, jewellery, decorative articles, etc. This means that articles where the functional purpose obviously prevails and which are not primarily purchased according to optical aspects, *e.g.* tools, kitchen appliances, office items, etc., are excluded from protection. A more flexible alternative to this point of view [excludes from protection] not whole product groups, but only such designs . . . that represent an improvement in functionality — *e.g.* that render a pair of scissors easier to manage or improve the user friendliness of office machines, etc. [But] this approach ignores the fact that good product design means combining form and function in an optimal manner, . . . and results in the exclusion from protection of particularly successful designs.

Having recognized this fundamental contradiction, some legislatures consequently limited the exclusion from protection to those rare cases in which the designer had no other option at his or her disposal in order to achieve a certain function — for only in these exceptional cases would protection of the design necessarily lead to protection of the technical idea, contradicting the inherent function of design protection.

Yet this narrow, modern way of viewing the matter is not laid down as an internationally valid standard in Art. 25(1), third sentence of the TRIPS Agreement. The possibility of excluding "designs dictated essentially by technical or functional considerations" means that the national legislatures may continue to restrict design protection to products or design elements that essentially serve a decorative purpose.[81]

It remains questionable whether Art. 25(1), third sentence, constitutes a final regulation of any possible exclusionary clauses, or whether the national legislatures will still have a broader scope for regulation in this respect. . . . The issue could . . . affect rules which, for systematic[82] or economic[83] reasons exclude certain product categories from protection,[84] or which establish other special requirements regarding the eligibility for design protection (for example the requirement that the design must be visible in the course of use in accordance with the purpose of the protected item,[85] or that products may not be protected as designs if they are not distributed separately . . . [86].).

A strictly literal interpretation of Art. 25(1), third sentence, could in fact lead to the conclusion that the TRIPS Members are not entitled to exclude designs for reasons other than their functionality. However, in view of the rather vague character of this provision, this conclusion appears somewhat questionable; in particular, it can hardly be assumed that there was a serious intention to declare unlawful the exclusion from protection of "immoral" designs, an exclusion that is anchored in most of the design laws throughout the world.

The strict wording and the (presumable) intention of the rule thus do not tally.

. . .

* Art. 25(2) (Special conditions for protection of textile designs)

Art. 25(2) obliges all members of the TRIPS Agreement to pay particular consideration to the special requirements of the textile industry. This rule was motivated by the specific, frequently lamented problems of this branch of industry: as a rule textile designs are developed in large numbers and are subject to extremely rapid changes that often take place from one season to the next. The effectiveness of traditional design protection founded upon entry in the register and publication therefore seems questionable for reasons of time and costs. At the same time, however, the textile industry relies on effective protection, because in this branch of industry in particular, deliberate and mass copying of new designs poses a grave problem.

Specific regulations aimed at reducing the registration procedure and costs for short-lived designs that are developed in large numbers are already anchored in numerous national design laws. [F]or example, . . . rules allow the combination of a larger number of designs in one single registration (multiple applications) and the possibility of deferring publication, with the result that the costs of publication of the design can be saved [for] a . . . brief period (which in the ideal case corresponds to the life-span of a fashionable design). A further possibility, even more advantageous for the textile industry, is the possibility of acquiring informal protection, whether on the basis of design law provided for in the proposal for a Community Design Regulation or on the basis of other laws.

Article 25(2) obliges the Members of the TRIPS Agreement to make available (at least) one of the workable possibilities of obtaining simplified, less expensive protection. The members are free to choose between fulfilling this obligation within the framework of either design or copyright regulations.

German design law already complies with the obligation under Art. 25(2) of the TRIPS Agreement by offering both multiple application (Section 7(9) Design Act) and deferred publication (Section 8b Design Act); the same applies to most of the other European states. Moreover, a real improvement in the protection of short-lived textile designs will result from the proposed Community Design Regulation, which provides for three-year protection for non-registered designs.

In principle, the design laws of the US and Japan do not offer any possibility of providing inexpensive and (considerably) faster protection for textile designs. However, in the US the possibility exists of obtaining copyright protection for two-dimensional textile designs; the criterion of separability, otherwise applied strictly, is not [as severe] with regard to [protection of] two-dimensional designs.[87] In contrast, in Japan no alleviation is provided with respect to the copyright protection of two-dimensional designs. In practice, there is the possibility of claiming protection against slavish imitation on the basis of the amended law against unfair competition. As Art. 25(2) explicitly mentions design and copyright protection only, this hardly appears to meet the requirements of the TRIPS Agreement.

* Art. 26(1) (Contents of Protection)

Article 26(1) lists the rights . . .to which design right owners are entitled. According to this list the manufacture, sale or importation of articles "bearing or embodying a design" are [to be] prohibited, if the design "is a copy, or substantially a copy" and "when such acts are undertaken for commercial purposes." In contrast to copyright law, for example, from the outset acts undertaken in the private sphere are not considered infringements. The [use] of the term "copy" means that . . . it will also be possible to restrict design protection to those cases in which the infringer was familiar with the previously existing design, in analogy to copyright law. On the other hand, Art. 26(1) does not preclude more far-reaching regulations with a true monopoly effect, such as are contained in most design laws throughout the world.

* Art. 26(2) (Exceptions from design protection)

According to Art. 26(2) the TRIPS Members are permitted to provide limited exceptions to the protection of industrial designs or models, inasfar as these do not unreasonably conflict with the normal exploitation of *the designs* and do not unreasonably prejudice the legitimate interests of the design owners, whereby the legitimate interests of third parties must also be taken into account.

The wording of this provision, corresponding to similar provisions in other parts of the TRIPS Agreement,[88] is basically consistent with Art. 9(2) of the Revised Berne Convention.[89] [T]he general permission of reproduction for private use of protected works is based upon this provision. In the case of design protection such an explicit exemption is not required, because infringement as referred to in Art. 26(1) only covers acts that are undertaken for commercial purposes.

Examples of exceptions that do not fall within the private sphere, but which must doubtlessly be deemed permissible according to Art. 26(2), are, for example, the display of the design for experimental or educational purposes; the . . . . use of the design as equipment on a vehicle etc. that enters the territory of the country of protection temporarily; the importation of parts for the purpose of repairing such vehicles; and the carrying out of such a repair . . .

In addition, compulsory licenses or other rules allowing use of protected designs at reasonable conditions must also be considered to conform with TRIPS. Such regulations are not *per se* irreconcilable with the legitimate interests of the proprietor of the design, nor are they declared unlawful in either the Paris Convention or in the TRIPS Agreement itself, although proposals to this effect were submitted and discussed during the negotiations.[90]

NOTES AND QUESTIONS

1. Article 4(C)(1) of the Paris Convention establishes a 6 month priority period to facilitate the serial acquisition of design rights on a multinational basis. These are expressly implemented in U.S. design protection systems. *See* Patent Act, 35 U.S.C. § 172 (six month priority available for design patent applicant); Vessel Hull Design Protection Act, 17 U.S.C. § 1311 (same for

vessel hull design right owner).

2. Under Article 5(D) of the Paris Convention design protection may not be conditioned upon notice. If the United States were to implement its Paris Convention and TRIPS obligations by constructing a broad-based design regime based upon the Vessel Hull Design Protection Act, would the current notice provisions, *see* 17 U.S.C. §§ 1306-1307 (content of notice and effect of omission of notice), require amendment? *Compare* 17 U.S.C. § 405 (effect of omission of copyright notice); Berne Convention, art. 5(2) (enjoyment and exercise of protected rights shall not be subject to any formality). *See* Pierre Maugué, *The International Protection of Industrial Designs Under The International Conventions*, 19 U. BALT. L. REV. 393, 394 (1989) (discussing effect of Article 5(D)).

3. The United States adopted the position that the industrial design provisions of TRIPS did not require the amendment of U.S. law. Does the United States comply with TRIPS obligations with respect to industrial designs? If not, in what respects is U.S. law deficient? Does TRIPS require the enactment of a *sui generis* design law? *See* Uma Suthersanen, *Breaking Down The Intellectual Property Barriers*, 2 INTELL. PROP. Q 267, 275 (1998) (answering in the affirmative); *Kur, supra*, at 149 (expressing doubt about such an interpretation). If not (and if, therefore, the United States can rely on its design patent protection to comply with TRIPS), does the United States need to modify any of the particular provisions of the design patent statute? Do you agree with Dr. Kur's relatively minimalist interpretation of the obligations imposed by Article 25(1) of TRIPS? *See* J. H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 INT. LAW. 345, 376 (1995).

4. Dr. Kur suggests that the third sentence of Article 25(1), permitting members to exclude protection for designs that are "dictated essentially by technical or functional considerations" does not constitute what she calls "a final regulation of any possible exclusionary clauses," meaning that that provision does not constitute the only ground upon which a group of designs can be excluded from the universe of protected subject matter. How does that provision interact with Article 26(2) which sets out a standard that any exceptions to protection must meet?

5. Under Article 26(3) of TRIPS, protection must endure for at least ten years, which may have been of some influence in selecting the length of protection for protection under the Vessel Hull Design Protection Act.

6. During the TRIPS negotiations, the Swiss delegation proposed a clause in the design provisions that would have required design protection to be offered independently of copyright or other forms of protection. Would there have been advantages to such an approach? What difficulties would this have engendered?

CASE NO. 4 Ob 95/91

Austrian Supreme Court, Nov. 5, 1991
25 I.I.C. 126 (1994)

The architect Le Corbusier, who died in 1965, designed from 1928-1929

a series of models for furniture that are classed as being in the Bauhaus style. These models, designed in collaboration with the architect's assistants Charlotte Perriand and Pierre Jeanneret, include an infinitely adjustable lounge chair that was manufactured by the Atelier Thonet, Paris, in a number of variations . . .

On November 26, 1987, the plaintiff, a joint stock company under Italian law, renewed the agreement it had concluded with the Le Corbusier Trust as heir and holder of Le Corbusier's copyright and as representative of Charlotte Perriand and of Pierre Jeanneret's heir, concerning the manufacture and sale of furniture by Le Corbusier, Charlotte Perriand and Pierre Jeanneret. This agreement granted the plaintiff the exclusive worldwide right to manufacture and sell Le Corbusier furniture, including the infinitely adjustable lounge chair (referred to in the agreement as "LC 4"). The plaintiff has manufactured and distributed a nickel-plated steel version of the LC 4 chair since 1974. . . .

The defendant is engaged in the furniture trade in Klagenfurt. In the period from 1988 to 1990 it took delivery from "Danish Rattan AS," Denmark, of a total of seven chairs . . . Some of these were then resold to retailers in Austria, whereby the defendant used a catalogue published by Danish Rattan AS, which contained [several] illustrations of . . . chairs [that were similar to the LC4 and the 1928 prototype of the infinitely adjustable lounge chair.]

. . .

[The] plaintiff requests an interlocutory injunction enjoining the defendant from offering and selling an imitation of the Le Corbusier lounge chair, claiming that it enjoyed the exclusive and worldwide right to exploit the models of Le Corbusier and his assistants, which rights thus included the Republic of Austria. The infinitely adjustable lounge chair was a work of applied art and thus entitled to copyright protection. This world-famous chair was not based upon the work of another artist. Its individuality was to be found above all in the three-part division in the line forming the sitting and reclining surface, the prominent neck-rest cylinder, and the semicircular support structure contrasting with the broken line of the reclining surface. By selling the imitations of these chairs, the defendant had infringed the plaintiff's exploitation rights. If the infinitely adjustable lounge chair did not enjoy copyright protection, the defendant's activity was in breach of Section 1, Act Against Unfair Competition.

. . .

FROM THE OPINION:

The [lower court] rightly applied Austrian law to the questions whether the infinitely adjustable lounge chair was a work to which copyright protection applied and whether the chairs distributed by the defendant and manufactured by Danish Rattan AS amounted to a plagiarism of these chairs. If the chair created abroad was (also) issued at the same time in Austria (although no findings were made on this point) within the meaning of Section 9(2) of the Copyright Act, then it is entitled to copyright protection by virtue of Section 95; if on the other hand it was created by a foreign author and issued abroad, then according to Section 96 of the Copyright Act its protection derives from international treaties or on the basis of reciprocity.

Since the architect Le Corbusier was a French national, and the chair he

and his assistants designed was manufactured by the French Atelier Thonet in 1928, it can be assumed that the chair was issued in Union countries of the Berne Convention for the Protection of Literary and Artistic Works, of which Austria is also a member. Both countries are also contracting states of the Universal Copyright Convention, whereby the relationship between them is governed by the Paris version of the Berne Convention and of the Universal Copyright Convention. In countries that are Union countries of the Revised Berne Convention and contracting states of the Universal Copyright Convention, protection under the Revised Berne Convention takes priority (Art. XVII(1) of the Universal Copyright Convention (Paris)). "Convention works" of the Berne Convention — *i.e.,* works originating in one of the Union countries (Art. 5(4) of the Berne Convention (Paris)) — are entitled to exclusive protection under the Convention in the countries of the Union. Article 5(l) of the Berne Convention (Paris) grants the same protection to authors from a country of the Union as is granted to works by a national. Copyright protection, which in Austria is also granted to works of applied art [cit] also extends to the scope of application of the Berne Convention; Austria has not availed itself of the possibility of restricting the protection of works of applied art. Works of applied art have also enjoyed copyright protection in the country of origin, France, since the Law of 1902, and this irrespective of whether they are also protected by virtue of the Law on Designs and Models. [cit]. Hence works of applied art from France are also entitled to copyright protection in Austria (Art. 2(7) Berne Convention (Paris)).

As this Court held in its decision, *Markt-Stahl-Stuht* [cit], the intention of the work, *i.e.* the purpose for which it has been created, is irrelevant for the question of copyright protection. Artistic works that fulfill the requirements of creativity and creativity in a work (individuality) of Section 1(1) of the Copyright Act can claim copyright protection and design protection. The border between copyright protection (artistic protection) and model protection must not, however, be set too low. On the contrary, there must be a considerable "aesthetic excess" or a corresponding artistic creativity. Similarly one and the same utility object can enjoy both artistic protection and patent or utility model protection simultaneously.

According to the literature and case law, a product of the human intellect is an individual intellectual creation (a "work") within the meaning of Section 1 of the Copyright Act if it is the result of creative intellectual activity and if the uniqueness distinguishing it from other works is derived from the personality of its author. The latter should find expression in such a way that it imposes upon the work the mark of uniqueness and its provenance from the author. In other words the work should be given form by the innermost essence of intellectual creativity. In the field of works of art, [cit], this form must be conceptually linked with a certain degree of originality. Here, a certain creativity in a work is necessary, an idea that has been given a form that bears the mark of the author's personal individuality, or at least is distinguishable by virtue of a personal touch from other products of a similar kind. [cit]. Works belonging to an artistic style whose intention is to derive the aesthetic shapes of utility objects exclusively from their purpose, avoiding any decorative additions ("functional form"), could have an aesthetic effect, but are not necessarily protected as works of art as a

result. If an artistic movement deliberately rejects all non-functionally determined elements of design, thus by its very nature having less scope for design at its disposal than other artistic styles, i.e. permitting less of the author's individuality to enter into the work, then the protection to which it is entitled is also correspondingly diminished. [cit].

In the same decision, this Court also held that novel technical solutions are not entitled to copyright protection. In the case of a combination of technology and art in one work, examination must be made of the extent to which the design elements used are determined by technical factors and to what extent they have been selected for reasons of form, taste, beauty, or aesthetics. Nor is the choice of a geometrical shape alone sufficient to justify recognition as a work of art, since the geometrical shape of itself is in the public domain. Nor, likewise, can an artistic style be eligible for copyright protection in its own right.

According to the decisions referred to above, this question must be answered on the basis of the conditions applying at the time the work was created. Subsequent developments, on the other hand, must be ignored, since otherwise creations whose remarkable artistic uniqueness provided the stimulus for a large number of similar products would lose their protection within a short time.

. . .

Despite its functional purpose, the chair designed by Le Corbusier and his assistants in 1928 contains an abundance of details that impose upon it the mark of uniqueness. Mention should be made here above all of the particular contrast between the broken line formed by the sitting and reclining surface and the arc-shaped supporting structure that serves both as contact element to the base and to enable infinite adjustment. It is not apparent that the chair only makes use of known features, or that its form is the necessary result of the technical function of the individual elements. In addition, the design of the head and foot of the chair also reveals traits of individuality; these latter shapes are neither determined by the purpose of the chair, nor made up of elements of a particular artistic style. All of these individual characteristics can be seen in the illustration of the prototype submitted in evidence; it is not obvious why this should not amount to evidence of the required creativity in a work. There is no indication that the [1928] “prototype” . . . is only a reproduction of "some possibly" original model. Nor does the fact that a number of variations of the chair were created have any consequence upon its creativity in a work. Furthermore the defendant has failed to present any concrete argument why the chair should be the mere result of ergonomic principles and a technical idea. Nor has the defendant stated which work served as a model for the architect Le Corbusier: the lounge chair designed by Ludwig Mies van der Rohe merely incorporates the three-part division of the sitting and reclining surface; Le Corbusier's lounge chair, with its infinitely variable adjustment, is completely different in the execution of the details. Nor has the defendant claimed that the van der Rohe chair was created before that of Le Corbusier. Thus the defendant has failed to fulfil his burden of proof to establish the contrary. In the absence of sufficient concrete claims and suitable counter-evidence, it must therefore be assumed in the hearing on the interlocutory injunction that the lounge chair was created independently by Le Corbusier and his assistants and that its shape is

neither determined by a technical principle or by the chair's function, nor is it part of the public domain.

. . . All the chairs illustrated in the catalog used by the defendant incorporate the characteristic features of the infinitely adjustable lounge chair. . . . Hence the plaintiff has sufficiently established that these chairs amount to an infringement of his exploitation rights. . . .

NOTES AND QUESTIONS

1. Article 2(7) effectively enables countries offering designs protection under both copyright and *sui generis* design laws to condition copyright protection for foreign nationals' works of applied art on substantive reciprocity. But how is satisfaction of that condition to be assessed? It is quite clear that France—the leading adherent to the unity of art philosophy—offers copyright protection that meets the reciprocity standard. But what if an Austrian national seeks protection in French courts for a design first issued in Austria: would Article 2(7) oblige France to provide protection? *See* SAM RICKETSON, THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS 1886-1986, 278-279 (1986) (discussing when copyright protection can be denied); *cf. Kur, supra*, at 146 (suggesting that reciprocity provision important between Italy and France because Italy "practically excludes" copyright protection for designs). How would you classify the Austrian approach to cumulation?

2. Does Article 2(7) of the Berne Convention—which derogates from the principle of national treatment—remain operative after TRIPS? *See* TRIPS, art. 3(1). Should it? What does it now achieve? When negotiated at the Brussels Revision Conference in 1948, Article 2(7) embodied a compromise negotiated largely by European countries to accommodate their disparate approaches to copyright protection for designs; in particular, Italy and the United Kingdom held firm against the French position that works of applied art should be fully brought within the Berne Convention regardless of whether the works were industrially applied designs. *See* RICKETSON, *supra*, at 276-278. Yet, although Article 2(7) now formally governs relations of most Berne members, the very countries of Europe who generated the provision have now been compelled to repeal the application of Article 2(7) because of the *Phil Collins* decision. *See supra* Chapter III. The early Commission drafts of the design directive discussed below, prompted by the same policy objectives as the *Phil Collins* decision, would have reached the same result legislatively. *See* art. 100(3) of Proposed Design Regulation; art. 18(2) of Proposed Design Directive. Thus, even if TRIPS permits continued application of the substantive reciprocity requirement, should Article 2(7) be changed? If so, in what way?

3. How does the standard applied by the Austrian court to determine originality measure against recent international articulations of copyright originality? Does that provide the basis for international agreement on protection of applied art? If not, what obstacles remain?

4. Why were the provisions of the Universal Copyright Convention inapplicable in this case? *See* Art. XVII of the Universal Copyright Convention; RICKETSON, *supra*, at 854-855. Why might the rules under Austrian law

applicable to the protectability of the Le Corbusier chair be affected by whether the "chair was issued at the same time in Austria" as abroad?

III. THE PARIS CONVENTION

D. GEOGRAPHICAL INDICATIONS

In the international context, the ultimate goal of negotiators may be to install a system addressing all geographical indications. The short-term priority, primarily driven by European nations, however, has been to regulate the use of such designations for wines and spirits. It is in this area that the European economic interest is at its greatest. And it is in this area that U.S. law has (arguably) been most deficient, finding several geographic terms used with wines — such as "champagne" — generic on the grounds that the term identifies for U.S. consumers a type of product; this status renders the term unprotectable and freely usable as a matter of U.S. trademark law even if the wine does not come from the denominated region (such as the Champagne region of France). Accordingly, treaties on geographical indications frequently contain both generally applicable provisions and specific provisions targeted at the wine industry.

1. Current International Agreements in General

Albrecht Conrad, THE PROTECTION OF GEOGRAPHICAL INDICATIONS IN THE TRIPS AGREEMENT,
86 Trademark Rep. 11, 22-__ (1996)

INTERNATIONAL PROTECTION BEFORE TRIPS

A. Existing Multilateral Treaties

1. Historical Development

The beginning of international protection of geographical indications dates back to the conclusion of the Paris Convention . . . in 1883, which included as protectible subject matter "indications of source or appellations of origin," Article 1(2). However, Article 10 prohibited the use of false geographical indications only if they were accompanied by a false, fictitious, or deceptive trade name. With the scope of protection so narrowly defined, the provision lacked effectiveness, and soon a number of countries undertook to establish a new union for the protection of geographical indications: The Madrid Agreement [for the Prevention of False or Misleading Indications of Source on Goods] of 1891 ("Madrid Agreement"). In spite of the active participation of many countries in the drafting process, only a few decided to become members, and important countries such as the United States, Italy, Germany, Belgium, and almost all the South American countries did not accede. Although several countries have since joined, the limited number of member states still remains a principal defect of the Madrid Agreement.

In 1958, the Revision Conference for the Paris Convention of Lisbon adopted a few changes regarding geographical indications, including the

cancellation of the above-mentioned restriction of the scope of protection. However, a group of countries, dissatisfied with the amendments, made a new attempt to foster protection of geographical indications: the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration ("Lisbon Agreement").[91] This agreement set a relatively high standard of protection and has now been taken as one of the models for the drafting of the TRIPS provisions. Despite its high standard (or perhaps because of it), even fewer countries have adhered to the Lisbon Agreement.

Today, the three main conventions result in three concentric groups of states:

(1) A small number of members of the Lisbon Agreement (17 members) with an international registration of geographic origins and strict protection.

(2) A larger number of member states of the Madrid Agreement (31 members), bound mainly to implement border measures and to prevent the dilution of geographical indications into generic terms.

(3) The large number of member states of the Paris Convention (117 members), agreeing mainly to border measures for false indications without defining the conditions for protection.

2. The Paris Convention

The protection of geographical indications under the Paris Convention is very limited. Indications of Source and Appellations of Origin are included among the objects of its protection, Article 1. Thus, nationals of member countries enjoy "National Treatment," Article 2. The provision concerning geographical indications alone, Article 10, as revised at the Revision Conference of Lisbon (1958), refers back to Article 9 and mainly provides for border measures against the importation of goods bearing false representations of origin, but only if such measures are available under the law of the member country. The agreement does not, however, define "indication of origin," nor does it state when a representation is false. The protection is left to the member countries. Therefore, Articles 10 and 9 in effect contain very little that is not already provided for by Article 2.

. . .

Article 10bis (3) of the Convention, regarding unfair competition, prohibits indications as to the "characteristics" of the goods, if they are liable to mislead the public. This might suggest that in cases where a geographical name is understood in commerce not only as an indication of origin but also as a description of the product's quality or "characteristics," the indication is protected under Article 10bis. The indication "Champagne" on an American bottle of sparkling wine, e.g., could be misleading, if the public is likely to think that the product originated in France and the characteristics of French "Champagne" are noticeably different. Article 10bis would apply here because "Champagne" not only indicates French origin but also certain characteristics.[92]

The legislative history of Article 10*bis*(3) shows, however, that the provision is not applicable to representations of geographic origin. Article 10*bis* was introduced at the Lisbon Revision Conference in 1958; it is based on the Austrian proposal which read:

> Indications or allegations, the use of which in the course of trade is liable to mislead the public as to the nature, the origin, the manufacturing process, the characteristics, the suitability for their purpose or the quantity of the goods.

The words "the origin" were then struck out because of the veto by the United States delegation who declared that the inclusion of the reference to geographical origin would cause too many problems in United States law and therefore they could not consent to it. The rest of the proposal then became Article 10bis(3). Thus, the Paris Convention prevents only the importation of goods containing false geographical indications but it is not applicable to indications that are merely misleading.[93]

3. The Madrid Agreement*

The Madrid Agreement exceeds the Paris Convention on three points. First, [Art. 1(1)] extends the protection to misleading geographical indications [by requiring signatory states to seize "goods bearing a false or misleading indication" of origin in a signatory country]. Second, Article 3*bis*, which was adopted by the Revision Conference of London (1934), prohibits the use of false representations on the product itself and in advertising or other forms of public announcements. Third, and most important is Article 4, which prohibits member countries from treating geographical indications of wines as generic terms. However, divergent views in reference to the construction of the provision exist (for example, regarding the use of terms like "type" or "style" with the indication), and thus its practical use is very restricted. Moreover, many nations have not acceded to the Agreement, which is another reason for its limited importance.

4. The Lisbon Agreement

The Lisbon Agreement was an attempt to secure effective and enforceable protection of geographical indications on a new basis. Its focus is not restricted to border measures, as in the Paris Convention or the Madrid Agreement, but also includes adoption of a registration system comparable to that of trademarks, drafted after the model of the "Madrid Agreement Concerning the International Registration of Marks" [discussed *infra* in Chapter V]. The object of the Lisbon Agreement concerns appellations of origin, as defined in Article 2(1). The definition employs the French interpretation of "appellations d'origine" by restricting the indications protected to cases in which the quality and characteristics are "exclusively or essentially due to the geographical environment, including natural and human factors." The main feature of the agreement is that these appellations of origin are "recognized and protected as such (a ce titre) in the country of origin and registered at the International Bureau of Intellectual Property," an agency of WIPO. Thus, the various countries are free to adopt any form of procedure to register geographical indications, be it by judicial or administrative determination. Once registered, a geographic indication

is protected in other member countries "in accordance with this agreement" (Article 1). The countries have to ensure that any kind of usurpation or imitation is prohibited under their laws, including the use of terms like "type" or "style" along with the indication (Article 3); no geographical indication can be deemed generic in any other country as long as it is protected in its country of origin (Article 6).

The main problem with the Lisbon Agreement is that very few states have become members.[94] Two critical points have prevented important nations from joining. First, international protection is granted only if the geographical indication is protected in the country of origin "as such"; hence, the concept of protection through the law of unfair competition or the law of advertising is not recognized. A number of states are not willing to transform their system of protection in order to be compatible with the standards of the Lisbon Agreement. Second, the Agreement does not make exceptions for terms that have already become generic in some member countries.[95] The issue of genericness is one of the difficult problems on the international level which has hindered the negotiating process of TRIPS.

B. Examples of Bilateral Treaties

Bilateral treaties have a long tradition in the field of the protection of geographical indications . . . [but have not] yielded effective protection because the parties failed to determine the scope of protection. An example . . . is the treaty [T.S. No. 514 1/2] between Portugal and the United States of 1910, in which the names "Porto" and "Madeira" were to be protected by the United States; in that case the United States decided to implement the protective provisions by means of the law of advertising. As a result, the discussion regarding whether or not the duty to "protect" these terms included a prohibition of "Porto" or "Madeira" accompanied by "kind" or "type," debated since the Madrid Agreement, was simply carried over into this agreement. . . .

After the failure of the Lisbon Agreement, a new type of treaty was developed. Lists of protected geographical names accompany the agreements, and the producers from each of these regions retain exclusive right to use the name. The scope of protection is then determined under the law of the country of origin. As a result, the country of origin controls the requirements for the legitimate use of certain geographical indications at home and abroad. No country has to alter its own laws in order to accomplish greater protection under the regime of a international treaty.[96] Rules of one country are "exported" together with its goods into another country. In this manner, a number of critical stumbling-blocks are avoided, but some problems have emerged as well. In each case of alleged violation, the court must apply the law of the country of origin instead of its own laws (which would be applicable under the Conflict of Laws Rules of most countries).[97] Thus, the objection of the United States to the Lisbon Agreement, i.e., that American courts would be bound by the decisions of a foreign jurisdiction, would apply to these agreements as well. Finally, the countries which practice protection through the consumer-oriented approach of unfair competition are again at a disadvantage because it is very unlikely that a court in the forum state would conduct a survey of the perception of consumers

in the country of origin of the product. Nevertheless, the model has spread rapidly in Europe. The main handicap to its adoption on a multilateral level is certainly its requirement that contracting states have a comparable standard of protection. The vast differences between the laws of the GATT/TRIPS members practically exclude such a possibility.

C. Conclusion: Problems of International Protection

A number of attempts to institute the international protection of geographical indications have been made, yet many interested producers and observers still await a break-through. The Paris Convention has more than a hundred members, but does not contain substantial provisions for the protection of geographical indications. The Madrid Agreement offers only a little more than vague border measures to its thirty-one members. The Agreement of Lisbon, finally, embodies the choice for effective protection at the cost of having less than twenty members. The bilateral treaty models described above essentially incur the same difficulties: either the scope of protection remains undefined and effective protection depends upon the good will of each member country, or the agreement requires a standard of uniformity that is simply non-existent. . . ..

PROTECTION UNDER TRIPS

A. Basic Concepts and Legislative History

. . .

. . . In the Spring of 1990, the EC presented a Draft Agreement which would serve as a model for the provisions on geographical indications. Subsequently, drafts were proffered by other countries, including the United States. Article 18 of the United States Draft reads in its pertinent part:

> Contracting Parties shall protect geographical indications that certify regional origin by providing for their registration as certification or collective marks.

The provision drew on the law of trademarks, a notion that in the United States had been the predominant approach towards protection of geographical indications. The proposal imposes a relatively narrow scope of possible implementations on the member countries. This seems rather unrealistic, especially in view of the fact that some of the countries which traditionally have protected geographical indications have long pursued other forms of protection. The failure of the Lisbon Agreement demonstrates the difficulties of an agreement that includes the obligation of the members to substantially alter their laws. The EC countries, some of them among the original proponents of international protection in the Lisbon Agreement, had learned their lesson; as long as effective protection was secured, they chose not to suggest a system of international registration (at least not for the moment). This approach gave the members an opportunity to keep their own laws. The proposal did not seek to introduce a distinction between special (statutory) protection for certain

appellations of origin and a more general concept of indications of source. This has certainly made matters easier for the many nations whose legal tradition was not familiar with the protection of geographical indications.

The trouble spot, however, was the attempt to prevent geographical indications, particularly wines and spirits, from becoming generic terms. The protection of wines and spirits was probably the most important reason that the EC introduced the whole topic to the GATT and it proved to be a tough problem. In contrast to the other topics of the Intellectual Property package, this battle was not the typical line-up between the first and the third world, but between the United States and the EC. In essence, it was a fight over agricultural subsidies. The question of additional protection for wines and spirits, finally settled in Article 23, remained one of the principal obstacles to the conclusion of GATT/TRIPS.

. . .

B. Substantive Standards: Articles 22-24 TRIPS

1. Definition of Geographical Indications: Article 22(1)

The TRIPS Agreement includes a definition of the term "geographical indications," [namely an indication that identifies goods that originate from a particular place in a Member State "where a given quality, reputation, or other characteristic of the good is essentially attributable to its geographical origin."]. Neither the Paris Convention nor the Madrid Agreement contains a similar provision and the failure of the Lisbon Agreement was to a large extent due to its restrictive definition. The United States proposal for TRIPS also lacked a description of what was to be protected.

Article 22(1) is derived from Article 2 of the Lisbon Agreement which reads:

> In this Agreement "appellation of origin" means the geographical name of a country, region or locality, which serves to designate a product originating therein, the quality and characteristics of which are due exclusively or essentially to the geographical environment, including natural and human factors.

The WIPO Model Law contains a definition of appellations of origin that is broader but essentially similar . . . .

Article 22 protects only products for which a relationship between their qualities or characteristics and their origin can be shown. However, as in the Lisbon Agreement, no test is offered to determine what is "essentially attributable." In the Lisbon Agreement, the lack of a standard is not as critical because protection is granted only to indications that are protected "as such" in their countries of origin and registered at the "International Bureau." . . .

The restrictive notion of the TRIPS Agreement, to require a link between the characteristics of the product and the place of origin, goes back to French law after the adoption of the law of 1919. This law did not contain a definition and thus required judges to develop a standard of their own.[98] The French courts

have subsequently denied protection as appellations of origin to famous products, such as Camembert or Moutarde de Dijon,[99] arguing that no characteristics or natural resources of the region accounted for their characteristics. Factors that have been considered in determining whether certain qualities are "attributable" to the geographical area include soil, climate, fauna, and flora.

When the definition was introduced through Article 19 of the EC Draft of 1990, it still contained an equivalent to the last part of the Lisbon definition: "including natural and human factors." In the Dunkel-Draft [prepared by GATT Director Arthur Dunkel in 1991] the definition was omitted and the point apparently was not discussed extensively. However, the omission may be significant. In view of the Lisbon and the WIPO Model Law, Article 22(1) could be construed to exclude human factors. For the protection of Sheffield Silver or Meissen Porcelain, for example, the origin of the raw materials in the area remains the only factor relevant to determine its protectability, not the tradition and craftsmanship that was handed down over generations. The scope of goods that can be protected by geographical indications is narrowed almost exclusively to agricultural products; manufacturers are not protected even if their product is "essentially" linked to the cultural heritage of the region.

Another restrictive and significant feature of the definition is that only "goods" are included. This appears to be contrary to the general concept of TRIPS. The US Draft, in accordance with the United States' law on certification marks, did not contain such a restriction. The Director General of WIPO had included "services" in his proposed amendment of Article 10bis(3) in 1977.[100]

2. Substantive Standard: Article 22(2)

Article 22(2) contains the basic concept for the substantive standards that the TRIPS Agreement was trying to accomplish throughout its member states. [It requires, in respect of geographical indications, the provision of 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 geographical area other than the true place of origin in a manner which misleads the public as to the geographical origin of the good; and (b) any use which constitutes an act of unfair competition within the meaning of Article 10*bis* of the Paris Convention"]. . . .

a. Consumer Protection: Articles 22(2)(a) and (4)

The wording of Article 22(2)(a) is relatively broad and leaves ample space for different countries to apply their national concepts in order to comply with the provision. It is derived from Article 20(1) of the EC Draft, which was intended to protect geographical indications against any act that would mislead the public as to the product's true place of origin, prohibiting among other things "the use of any means in the designation or presentation of the product likely to suggest a link between the product and any other geographical area other than the true place of origin."

According to Article 22(2)(a), two requirements must be fulfilled in order to allege a violation. A representation on a certain good must suggest its

origin (be geographically descriptive); and this suggestion must be false or misleading. Geographical descriptiveness seems easy to identify but two troubling cases should be noted. The first is the problem of generic terms; when a geographic designation is identified with a type of product rather than with a geographical area it no longer suggests that the product originated in the particular region. As this problem is treated as one of the exceptions in Article 24(6), it is addressed later. The other problem is the question of indirect indications of origin and the use of symbols instead of geographic names: the word "Bordeaux" on a bottle, for example, clearly indicates the origin of the wine. Other wineries, however, may have chosen a distinctive form of their bottle that suggests product origin to the consumer.[101] These forms of presentation can become as indicative for users as a name on the product. The wording of Article 22(2) is unclear as to whether or not it includes such indications. . . . [T]he wording "any means in the designation or presentation" suggests that any mark, sign, or design shall be included, as long as a goods-place-association can be shown. Hence, symbols representing a landmark or geographic location are prohibited, if they give rise to an erroneous association with a place.[102]

An additional safeguard has been included in Article 22(4) to prevent a true statement which is nevertheless misleading as to the origin of the goods from undermining the effectiveness of the provision. Accordingly, renaming the Napa Valley Champagne, Burgundy or Chablis would be of no avail to California wine-growers — a soothing prospect for the French producers.

b. The Incorporation of Article 10bis of the Paris Convention: Article 22(2)(b)

The provision was part of the Dunkel-Draft. The EC Draft was aimed at preventing any use which constitutes unfair competition, and thus the incorporation of Article 10bis seems a logical wording of the provision. However, in view of the legislative history of Article 10bis, i.e., the refusal of the Revision Conference of the Paris Convention in 1958 to include protection of geographic origin in Article 10bis, its application "with respect to geographical indications" within TRIPS is surprising and rather odd. It extends the purview of Article 10bis for the members of GATT/TRIPS without revealing that it is not simply the incorporation of a parallel treaty but an extension of its scope.

. . . Although most cases that constitute a violation of Article 10bis of the Paris Convention are covered also by Article 22(2)(a), the inclusion of the two sections is based upon the various interests protected by unfair competition law: Article 22(2)(b) protects the interests of producers and merchants, whereas Article 22(2)(a) is aimed at representations misleading the public, *i.e.*, consumers, Article 22(2)(b).

. . .

3. Wines and Spirits: Articles 23 and 24(6)

The provision on wines and spirits is one of the most closely fought-over provisions in the whole GATT. The legal issue is the degeneration of geographical indications into generic terms and must be read together with the

exception in Article 24(6) which, although applicable to the whole section, especially pertains to the problems of wines and spirits.

In the United States, under the regulations of BATF, the general rule is that a name of geographic significance may be used only to designate wines of the origin indicated by such name, unless the names have been found to be generic or semi-generic. [See 27 C.F.R § 4.24(c)(1) (1993)]. Only two names have been found to be generic, Vermouth and Sake. [*Id.* at § 4.24(b)(2)]. Sixteen names, however, are deemed to be semi-generic, including Chianti, Burgundy, Champagne and Chablis. According to the regulations, they can be used as long as the real origin is used in direct conjunction with the name. Therefore "California Chablis" and "American Champagne" could become a problem in international trade.

Several techniques can be used to prevent geographical indications from becoming generic terms, and the EC has attempted to consider three. First, the conversion of geographical names into generic terms can be prohibited by law; such a provision is contained in the Madrid Agreement (Article 4) and was proposed by the EC Draft. It was not adopted by the Dunkel-Draft, however, and it is not part of the TRIPS now. The second technique is to prohibit strategies which on their face prevent deception of the public by adding "style" or "type" to the geographical name or indicating the true place of origin, but which nevertheless dilute the perception of the name. This approach has been accepted under Article 23(1), [which requires Member States to provide means for interested parties to prevent use of a geographical indication identifying wines or spirits for those products not originating in the place identified, even when the true origin is indicated or the geographical indication is used in translation or accompanied by expressions such as “style” etc.] A sparkling wine "type Champagne" could have been dealt with under Article 22(2)(a) as long as the statement as a whole is still likely to mislead the public. For wines, Article 23(1) precludes the defense that the presentation of the goods is not deceptive or misleading. The third possible technique which has also been incorporated into the Agreement (Article 23(2)) relates to the law of trademarks: it prohibits registration when a trademark is primarily geographically descriptive. This technique is treated. . . below.

Articles 23(1) and (2) seem to implement a fairly effective standard of protection to prevent names from becoming "generic terms." However, important exceptions can be found in Article 24(6). The first part of (6) suspends the application of Articles 22-24 in a member state (Forum 2), if a geographical name of Forum 1 is a generic term in Forum 2. The second part specifically addresses the problem that wines are often named after the grapes used in them and that these names are often indirect indications of origin (e.g., "Riesling" for German or Alsatian wine). In that case, as long as the grape "existed" at the date of entry into force of the World Trade Organization (WTO), the use of its name is allowed.

In view of the intense discussion that took place before the provisions on wines and spirits were adopted, one may question whether they will effectively restrict the use of "Champagne," "Bordeaux," "Chablis" or the like for products originating outside of France. The United States delegation charged that the EC was trying to re-institute names as protected geographical indications which had

lost their geographical descriptiveness in the United States and had become generic or semi-generic terms. If there was such an attempt to roll back years of common usage, the United States delegation prevented it from succeeding. . . . On the other hand, Articles 23(1) and (2) will not permit more geographical names to lose their geographical connotation and will therefore provide an effective standard for the future.

4. Relation to Trademarks

Since geographical names have much in common with trade names or marks, the determination of the relationship between trademarks and geographical names seems very important for any national or international regulatory concept. In fact, most countries have implemented provisions at the national level to the effect that it is generally not possible to register as a trademark a term which merely consists of a geographical name.[103] Therefore it is surprising that none of the international agreements have so far attempted to resolve the problem. TRIPS, for the first time implementing substantive standards of protection, now includes a resolution of the issue: the registrability of geographical names as trademarks in general (Article 22(3)), and of wines in particular (Article 23(2)). A grandfather clause is added in Article 24(5).

Article 21(2) of the EC Draft plainly barred the registration of a trademark which contained or consisted of a geographical indication. This would have included prohibiting a name regardless of its deceptiveness to the public, whether the name actually identified a single business source or merely consisted of a fantasy name. The EC Draft was not acceptable to the United States where registration as a trademark is possible if the geographical name has acquired "secondary meaning," i.e., does not denote merely the origin of the product but also identifies a single business source. The TRIPS Agreement is a compromise between the two concepts: it generally adopts a view similar to the United States concept by making eligibility for registration as a trademark subject to the perception of the public (Article 22(3)). Thereby it systematically follows the approach that is taken by Article 22. However, for wines and spirits, economically the most important businesses, no trademark can be registered if it contains or consists of a geographical indication identifying wines or spirits [and the wines or spirits do not have that geographic origin], regardless of its level of perceived deceptiveness to the public. [Art. 23(2)].

Article 24(5) adds two exceptions to the [provisions on the] registrability of trademarks. Section (a) states that a mark that was registered in good faith before the TRIPS Agreement will continue to be a valid trademark. It remains to be decided what "in good faith" means here. Commonly, the term "in good faith" is construed to mean that the party did not (and was not required to) know of the rights of other parties. If "good faith" is construed to mean "not knowing of the existence of the other party," the scope of the exception is considerably smaller, because a geographical name is rarely used without knowledge of its origin. Another interpretation could stress the point that the owner of the trademark did not know about the "right" of the other party (under Articles 22 and 23 TRIPS), in which case the term "in good faith" adds nothing to the [other] requirements [of Article 24(5)]. The case of "Chablis With a Twist" may illustrate the problem,

even though the United States law has changed since the decision. The case involved the attempt to register a trademark for "Chablis With a Twist" in the United States; the French INAO took exception with the registration but its opposition was dismissed on the grounds that "Chablis" was a generic name for a certain wine and thus not "primarily geographically deceptively misdescriptive." Can the use of the trademark "Chablis With a Twist" be deemed to be "in good faith," although the owner certainly knew of the claims of the INAO? The question has to be answered in the affirmative for two reasons. The first is a consequence of Article 24(6) which allows the use of geographical indications if they have become generic terms. Accordingly, the members of TRIPS must be able to make regulations concerning the use of such generic terms which can include their eligibility for registration as a trademark. The second is that Article 24(5) is aimed at preserving the status quo where trademark owners have used the mark in accordance with their own laws and have acquired a reputation for their product that warrants protection just as much as the protection of a geographical name. As its main object is not to reverse past developments, more than the mere knowledge of another party's potential claim must be shown in order to allege that the trademark owner did not act "in good faith." The most adequate solution would be to interpret "in good faith" as meaning "without deceptive or misleading intent," thus excluding the protection of past deceptions while acknowledging legitimate uses of a name over considerable time.

The second exception, section (b), seems slightly more problematic under policy considerations: a trademark consisting of a geographical indication is valid as long as it was registered before the geographical name was protected in its country of origin. Accordingly, a country that does not yet have a system of protection for geographical indications, but decides to adopt one now, may find that its names have already been registered as trademarks in foreign countries. In such a case, the reciprocity TRIPS appears to offer exists only on paper. In 1977, a number of developing countries have expressed fear that their geographical names may be registered in the developed nations before they become known in the world market. Although Article 24(5)(b) may serve to expedite the process of implementing these provisions in developing countries, it still gives an unwarranted advantage to the countries which have long recognized geographical indications.

On the whole, the provisions on trademarks show an important feature of the section: TRIPS protects future misappropriation and moderately restricts its scope of application where past developments cannot be reversed.

5. Exceptions: Articles 24(4)-(9)

Two of the most important exceptions, Articles 24(5) and (6), have been treated above. Two more are mentioned here. Article 24(4) addresses the question of parallel use of geographical names for wines and spirits; it is tantamount to an acknowledgment that TRIPS does not and cannot reverse past developments in the field. Thus, if a name has been used for at least ten years preceding the Ministerial Meeting concluding the Uruguay Round or "in good faith" for a shorter period of time preceding that date, the user can continue to do so. . . . The most famous example of continuous use is the case of Budweiser

beer. Since the thirteenth century beer has been brewed in Budweis, Bohemia and named accordingly. Since the nineteenth century, "Budweiser" has, however, also been the name of an American beer, which, after much litigation in the United States, was deemed to have acquired "secondary meaning," so that it could be registered as a trademark. Although the name is still fought over, TRIPS does not attempt to settle the matter and allows use in each of its member countries.

An example of use "in good faith" is the case of "Bocksbeutel" that has been mentioned above. In that case the European Court of Justice (ECJ) decided that Germany could not limit the importation of Italian wine on the grounds that the wine was presented in distinctive "Bocksbeutel" bottles, even if the bottle was protected as an indirect indication of origin in Germany, as long as the Italian wine producers had used the bottles for a long time "in good faith." The court regarded as plain that the Italian producers had not chosen this distinctive bottle shape to make the wine look like "Bocksbeutel" but because it had been their way of presenting the product for more than a hundred years.

Article 24(9) is also noteworthy because it contains an exception from the National Treatment concept and a restriction of the protectible indications which is not part of the trademark section. Even if the public in one country (Forum 1) identifies a geographical name with its region of origin in another country (Forum 2) so that use of a false indication would mislead the public, TRIPS does not require Forum 1 to protect the indication as long as it is not protected in Forum 2. The notion here is that it would be unreasonable to restrict the use of "Moutarde de Dijon" in the whole world to products of Dijon while Moutarde de Dijon has become a generic term in France and can therefore be used for any French mustard.

6. Problems of National Treatment

The problems that will be incurred by the application of Articles 3 and 4 to geographical indications are the same problems that have caused existing international agreements to fail. One is the question of registration of geographical names. Under the Romanistic approach, the protectible names must be defined by a legislative, administrative, or judicial act. Names which are not addressed by special regulations are protected against unfair competition, but that protection may not be applied as strictly because all the national products are covered by another strict regime. TRIPS has, however, recognized this problem "officially" in Article 23, where the intent to undertake negotiations is made part of the provision on "Wines and Spirits." Another problem concerns the fact that knowledge of geography becomes important if public opinion is to determine whether or not a name is eligible for protection as a geographical indication. The public will presumably be more familiar with domestic geography than with foreign, and is thus much more likely to find domestic names geographically descriptive or misdescriptive than foreign names.

These are only two cases in which the application of the laws of the members could lead to discriminatory practices which could only be avoided by harmonizing the laws of the members — a task that would by far exceed the mandate of the Uruguay Round.

CONCLUSION

The TRIPS provisions are designed to protect geographical indications from three abuses: first, the use of false or misleading geographical indications; second, the registration of geographical indications as trademarks; and third, the dilution of geographical indications into generic terms. The first goal, to prevent false or misleading abuses, is resolved in a general fashion in Article 22, with stricter rules for wines and spirits in Article 23(1). The provision can be implemented in various ways, including the law of unfair competition, advertising, certification marks, or special provisions that enjoin others from using the name. It is easy to predict that it will not be the implementation of the general principle that will cause trouble, but its application. Every country will have different standards, as they had before, and in this area, dispute settlement and other enforcement measures will have little effect. The second goal, to prevent the registrability of geographical indications as trademarks, seems fairly easy to implement and control; accordingly, the United States included a provision in the Lanham Act that is based on the TRIPS provision. However, the grandfather clause will ensure that past registrations remain valid. Finally, as for the degeneration of geographical indications into generic terms, a fairly moderate approach has been taken, again with the exception of wines and spirits. For other products, protection is granted through Article 22 and, as noted above, different views and customs will prevail regarding the generic significance of certain terms.

In conclusion, it should be stressed that in TRIPS, more countries have agreed on substantive standards for the protection of geographical indications than ever before in an international agreement. The protection of geographical indications will undoubtedly grow — for better or for worse. The battle between the EC and the United States has led to a compromise that will prevent future abuses and the degeneration of geographical names into generic terms, but will preserve the status quo of today.

THE LISBON ARRANGEMENT

The Lisbon Arrangement establishes a system for international registration system for appellations of origin. After filing and obtaining protection of an appellation of origin in their home country, producers may deposit the application with WIPO and seek extension of that protection in all countries that are members of the Lisbon Arrangement. Countries in which extended protection is sought have one year in which to raise objections under Article 5(4), and are given some latitude to determine whether, under their own laws, protection should be granted. But once the one year period has expired without objection, the appellation of origin will be protected in the additional countries. Article 6 requires that, once registered, members are prohibited from deeming the term generic provided that it remains protected in its country of origin. Any conflicting trademark usages of the protected geographical indication (even prior usages) must cease within two years. *See* Article 5(6). Is the Lisbon Arrangement over-ridden by TRIPS? *See* Lisbon Arrangement, art. 5(6); TRIPS, art. 24(5).

The dispute over the BUDWEISER mark for beer in Israel illustrates the operation of the Lisbon Arrangement. Budejovicky Budvar is a brewery based in the town of Budweis, Czech Republic (or, Budejovice, in Czech). In the late nineteenth century the town had a substantial reputation for brewing beer, and the beer sold by Budejovicky Budvar came to be known as BUDWEISER, a term which the company has used on its beer since then. Anheuser-Busch is a U.S. producer of beer which it markets under the trademark BUDWEISER; American BUDWEISER beer does not come from the Czech town, although the inspiration for the name came from there. BUDWEISER is a Czech-originated appellation of origin registered in Israel under the Lisbon Arrangement, in the name of Budejovicky Budvar. In 1984, Anheuser-Busch brought an action in Israel against Budejovicky Budvar in which they contended that the Czech company had no rights to BUDWEISER. The Israeli Supreme Court held that, under the Israeli statute implementing the Lisbon Arrangement, as long as the appellation is protected in the country of origin, Anheuser-Busch cannot contest the validity of the appellation of origin. (In this regard, the Israeli law provides more protection against challenge than the Lisbon Agreement requires; the Lisbon Agreement prohibits challenge on genericism grounds, whereas the Israeli stature forecloses any challenge to Lisbon-initiated registrations. *See* Howard Poliner, *Appellations of Origin in Israel Pursuant to the Lisbon Agreement*, 21 EUR. INTELL. PROP. REV. 149, 152 (1999).) The rights granted are absolute; the only question is whether the person that used the appellation was authorized to do so.

The Israeli Budweiser litigation is part of an ongoing worldwide dispute between the two companies. *See generally* Robert M. Kunstadt & Gregor Buhler, *Bud Battle Illustrates Perils of Geographic Marks,* NAT. L.J. MAY 18, 1998. Neither company has fully prevailed, and in many countries concurrent use has been permitted by the courts. *See, e.g., In re Budweiser Trade Mark Application*, 1998 R.P.C. 669 (Ch. D. 1998) (Eng.) (permitting concurrent trademark registrations); *see also* Andrew Inglis & Joel Barry, *"Budweiser": The Decision of Solomon*, 20 EUR. INTELL. PROP. REV. 320 (1998). In considering — as we will later — whether and how the United States might incorporate protection for geographical indications into its law, bear in mind that the term BUDWEISER is a registered appellation of origin and that Anheuser-Busch owns trademark rights in that term for beer in the United States.

NAFTA AND TRIPS IMPLEMENTATION

Article 1712 of the NAFTA imposes obligations with respect to geographical indications not unlike those contained in the TRIPS Agreement. Thus, for example, Article 1712(2) of the NAFTA mirrors the prohibition (found in Article 22(3) of TRIPS) against the registration of trademarks consisting of geographical indications that mislead the public as to the origin of the product. TRIPS went beyond NAFTA, however, in making specific provision for geographical indications used on wine, reflecting the relative economic importance of wine producers in Europe and North America. *See generally* Daniel R. Bereskin, *A Comparison of the Trademark Provisions of NAFTA and TRIPS*, 83 TRADEMARK REP. 1 (1993). The United States implemented its NAFTA obligations with respect to geographical indications primarily by

amending the Lanham Act to make the bar on primarily geographically deceptively misdescriptive marks absolute (section 2(e)(3)), rather than conditional upon secondary meaning. *See supra* Chapter II. As with TRIPS, the NAFTA sought to protect acquired rights, and thus Section 2(e)(3) grandfathers trademark rights in such marks that have acquired distinctiveness before December 8, 1993 (the effective date of the NAFTA Implementation Act). Because of the NAFTA-necessitated amendments to the Lanham Act in 1993, the TRIPS Agreement (concluded the following year) required very little action on the part of the U.S. legislature. The sole additional change made to the Lanham Act was the addition of a wine and spirits-specific bar to registration in Section 2(a). *See below*, note 13. Otherwise, the United States adopted the position that the protection afforded by the Lanham Act and the regulation of the sale of alcoholic beverages by the BATF satisfied its obligations with respect to geographical indications under TRIPS and the NAFTA.

NOTES AND QUESTIONS

1. The pressure to adopt provisions on geographical indications was seen by some countries as an attempt by the European countries to buttress sectors that are significant in the European economy by excluding upstart competitors. Is there anything in the nature and history of protection for geographic indications that suggests an inherent (and perhaps unchangeable) bias toward the European countries? What explains the diametrically opposed views of the EU and the United States — who were allied for most of the TRIPS negotiation — on the issue of geographical indications? The leading supporter of the EU efforts to include protection for geographical indications was Switzerland. Why was Switzerland interested in protecting geographical indications? *See* Thomas Helbling, *The Term 'Swiss' on Trade Goods: A Denomination of Origin and its Legal Protection in the United Kingdom*, 19 EUR. INTELL. PROP. REV. 51, 53 (1997).

2. In 1977, developing countries proposed a revision of the Paris Convention to prohibit registration and use of geographic terms by firms not located in the region in question out of a fear that "before their appellations of origin became known in the world market, the terms may be adopted as trademarks by producers in the developed world." J. Thomas McCarthy and Veronica Colby Devitt, *Protection of Geographic Denominations: Domestic and International*, 69 TRADEMARK REP. 199, 203-204 (1979). Professor Heald suggests that "the increased protection of geographic indications [in TRIPS] should provide incentives for underdeveloped member states to develop local industries and market agricultural products worldwide under an exclusive indication of source." Paul J. Heald, *Trademark and Geographical Indications: Exploring the Contours of the TRIPS Agreement*, 29 VAND. J. TRANS. L. 635, 656 (1996). Do the TRIPS provisions on geographical indications represent a victory for developing countries? Do any of the provisions of TRIPS present problems for developing countries? Would the 1977 proposal have been a more favorable approach for developing countries?

3. The final text of Articles 22-24 of TRIPS is a heavily-worked compromise? What were the problems of adopting either an approach based

wholly on unfair competition principles or an approach based wholly on registration? *See* Chapter II, *supra*. If an international system were constructed upon principles of unfair competition (public perception and public deception), what difficulties would that present? *Cf. In re Societe Generale Des Eaux Minerales De Vittel*, 824 F.2d 957, 959 (Fed. Cir. 1987) (noting difficulties that arise where issue turns on the public's response to symbols more common in other countries). Alternatively, what problems would there be with an international system where lists of protected terms were drawn up and exchanged, and the terms on those lists provided with absolute protection? How radical a shift would such an approach be for the United States? *Cf.* Paris Convention, art. 6*ter (*requiring an absolute prohibition against the use or registration of certain national symbols such as the flag, coat of arms or other national insignia); Lanham Act § 2(b).

4. One of the important provisions of the Lisbon Arrangement is that under Article 3, signatory states must prevent unauthorized us of the appellation of origin even if it is accompanied by terms like "type" or "style". Why is that type of provision — seen also in Article 23(1) of TRIPS — important? Does this form of protection have analogies in modern mainstream trademark protection? Given the nature of appellations of origin, why might you expect analogies to modern notions of trademark protection?

5. The issue of who is an "interested party" under Articles 22-24 of TRIPS is crucial because Articles 22(2) and 23(1) require that such persons be afforded the legal means to prevent uses that violate the applicable standards. Article 10 of the Paris Convention — the earliest provision addressing geographical indications, and applied to TRIPS by Article 2 — defines "interested party" to include producers and merchants of the goods in question who are situated either in the place falsely indicated as the origin of the goods or in the country where such false indication is used. Under the philosophy of Article 10, competitors would thus clearly appear to be interested parties. Are governmental organizations such as INAO, *see* Chapter II, the French government agency that supervises French geographical indications, "interested parties"? What are the "interests" that INAO has in the private enforcement of these provisions? Should one government be compelled to permit the agency of another government to sue in their national courts for enforcement of TRIPS obligations? The U.S. courts have granted INAO representational standing, *see Institut Nat. Des Appellations* v. *Vintners Int'l Co., Inc*., 958 F.2d 1574 (Fed. Cir. 1992), but is that mandated by TRIPS? Are consumers interested parties such that they must be accorded standing to protect geographical indications? In several countries — such as Germany, for example — consumers (or consumer protection agencies) have standing to bring actions grounded in unfair competition.

6. Review the definition of "geographical indication" in Article 22(1) of TRIPS. Is the "California" look, used in the marketing of California wines, a geographical indication within the meaning of Article 22(1)? *See* Kendall-Jackson Winery Inc. v. Gallo Winery, 150 F.3d 1042 (9th Cir. 1998) (noting that the combination of an exposed cork, a rounded flange, and a neck label on a wine bottle creates the "California look," which consumers might have come to expect on a bottle of Californian wine). Does the use of that "look" by

other than California wine producers fall within the scope of Article 22(2)(a)'s prohibition, assuming that its use will mislead consumers? If consumers would not be mislead, is such a use covered by the stricter wine-specific provision in Article 23(1)? If so, how would that use be enjoined under U.S. law? (Answering these questions may require you to consider whether you are persuaded by Conrad's explanation of why indirect geographical indications are covered by Article 22(2).)

7. According to Conrad, "two requirements must be fulfilled in order to allege a violation [under Article 22(2)(a)]. A representation on a certain good must suggest its origin (be geographically descriptive); and this suggestion must be false or misleading." Do you agree with this interpretation of Article 22(2)(a)? Article 22(4) extends the provisions of Article 22 to circumstances where the geographical indication used is literally true as to the product's origin but still falsely represent to the public that the goods originate in another territory. Thus, a couturier from Paris, Texas, may not use the mark PARIS on his clothes — notwithstanding geographical truth — if consumers would believe that those clothes came from Paris, France? Does this provision contain any inherent bias?

8. Geographical terms are currently used by producers, often as trademarks, on products throughout the world. Thus, both the NAFTA and the TRIPS Agreement recognized the need to protect rights that had been acquired prior to the conclusion of the respective agreement heightening protection for geographical indications. In the TRIPS Agreement, this recognition takes the form of the various exceptions found in Article 24(4)-(6), which prevent the new obligations to protect geographical indications from interfering with existing trademark rights in geographic terms or with existing uses of geographical designations. Article 24(5) is arguably different in kind from the other two provisions: in what way?

9. Article 24(6) excepts Members from complying with the new provisions with respect to geographic terms that have become generic in that country. Different countries have quite different tests, however, for when a term becomes generic. *See Heald, supra* at 648-49 (noting, for example, that in Switzerland, "a geographic name must have been used for decades to describe a material quality, and must still be understood as such by all interested persons in order to be deemed generic."). How should a WTO panel interpret the scope of the "generic" exception in Article 24(6)? *Cf.* Madrid Arrangement, art. 4 (expressly reserving questions of which geographic terms were generic, and thus not covered by the agreement, to national tribunals, except for products of the vine).

10. Article 23(3) provides that in the case of homonymous geographical indications for wines protection shall be accorded to each indication. This provision — which leaves the conditions of concurrent use to national laws — is subject to Article 22(4), which would trump Article 23(3) if one literally true use would in fact falsely represent that the goods originated in the other territory. Thus, as Conrad explains, strategic renaming of Californian valleys after those of France would not be a means of circumventing the protection of the TRIPS Agreement.

11. Article 22(2)(a) of TRIPS and Article 1712(1)(a) of the NAFTA

require signatory states to provide an interested party with the means of prohibiting the use of a geographical indication of origin that misleads the public as to the geographical origin of the goods upon which it is used. Does the availability of an action under Section 43(a) of the Lanham Act ensure U.S. compliance? In what respects might the Section 43(a) action be deficient? *Compare* Section 43(a)(1)(A) of the Lanham Act and Article 22(2)(a) of TRIPS. Could any deficiency in implementing Article 22(2) be repaired by the introduction of stricter administrative regulations by the FTC or the BATF? *Cf.* TRIPS, art. 42(1).

12. Does the absolute bar on registration of primarily geographically deceptively misdescriptive marks under Section 2(e)(3) fully implement the United States' obligations under Article 22(3) of TRIPS to deny registration to any mark consisting of a geographical indication that misleads the public as to the true origin of the product? *See* Peter M. Brody, *Protection of Geographical Indications in the Wake of TRIPS: Existing United States Laws and the Administration's Proposed Legislation*, 84 TRADEMARK REP. 520, 524-526 (1994).

13. Notwithstanding the inclusion of a separate (and more protective) set of provisions regarding wines and spirits, the United States adopted a minimalist approach to implementation of these obligations. Thus, Section 2(a) of the Lanham Act now bars from registration a "geographical indication which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods and is first used on or in connection with wines and spirits by the applicant on or after one year after the date [*i.e.,* January 1, 1996] upon which the WTO Agreement enters into force with respect to the United States." Does the grandfather provision in Section 2(a) comply with the scope of the exceptions in Articles 24(4)-(5)? *Cf. Heald, supra* at 651-52 (discussing Article 24(4) exception).

Although Section 2(a) creates a non-confusion based basis for challenging an offending trademark registration and thus implements Article 23(2), Article 23(1) requires that means be available to stop nonconfusing uses of designations on wines and spirits. At the time that the TRIPS Agreement was concluded, Section 43(a) provided an action to enjoin a confusing use of such an indication but it was doubtful whether U.S. law offered relief where the use was nonconfusing and thus U.S. law appeared noncompliant. Has the enactment of Section 43(c) of the Lanham Act, which provides dilution protection to famous marks, corrected the omission? Can the BATF regulations be relied upon to remedy any failings with respect to Article 23(1)? *See* TRIPS, art. 23(1) note 4. If the BATF regulations can be relied upon to justify compliance, do the current regulations meet the TRIPS standard? *See* 27 C.F.R. § 4.24 (wines); § 5.22(k) (spirits). The wine-related regulations are discussed *supra* Chapter II; for a summary of the spirits regulations, *see Brody, supra* at 530-31. Some commentators have argued that the Taxpayer Relief Act of 1997, *see supra* Chapter II, "provides greater protection to U.S. wine makers who use European geographical indications on wine made in the United States," and arguably might violates TRIPS. *See* Leigh Ann Lindquist, *Champagne or Champagne? An Examination of U.S. Failure to Comply With the Geographical Provisions of the TRIPS Agreement*, 27 GA. J. INT'L & COMP. L. 309, ___-___ (1999). In what

way would this legislation violate TRIPS?

14. Under what circumstances, if any, do the general provisions of Article 22 mandate broader protection for wine related geographical indications than the wine-specific provisions in Article 23?

15. One of the most important objectives for U.S. negotiators was to retain free use of terms — such as CHAMPAGNE or CHABLIS — previously held to be generic by the U.S. courts. This was achieved primarily by Article 24(6). Professor Heald has suggested another means by which, without reliance upon the exceptions, the continued general use of such terms could be justified under TRIPS. Heald focuses on the definition of "geographical indications," in Article 22(1) as words that "identify a good as originating in the territory of a Member . . . where a given quality, reputation or other characteristic of the good is essentially attributable to its geographic origin, and argues that because generic geographic wine marks (such as CHABLIS) no longer describe a product that originates there but rather a variety of wine, they do not come within the definition of geographical indication. *See Heald, supra*, at 646-47. Professor Heald notes also, however, that the amendment to Section 2(a) of the Lanham Act did not define "geographical indications." Do any consequences attach to this?

16. Professor Marshall Leaffer has commented that the changes to the Lanham Act implementing TRIPS and NAFTA "explicitly recognize for the first time the protection of appellations of origin." Marshall Leaffer, *Appellations of Origin And Geographic Indications in U.S. Law After NAFTA and GATT*, 2 INT'L INTELL. PROP. L. & POL. 45-1 (Hugh Hansen ed. 1998). Do you agree? If so, which amendments effected this result? Professor Leaffer also argues that these changes "reflect an ongoing drift away from the original basis of U.S. trademark law, consumer confusion, to a recognition of trademarks as an absolute property rights." *Id.* In what way, and to what extent, do these changes create absolute property rights?

4. Revision of TRIPS Pursuant to Articles 23-24

The provisions on geographical indications were some of the most contentious in the entire GATT Uruguay Round negotiation. The provisions that resulted represent a hard-fought compromise. But many issues remained unresolved, and to this end Articles 23-24 established a continuing obligation to negotiate further on these matters in the TRIPS Council. Article 23(4) requires Member States to undertake negotiations regarding "the establishment of a multilateral system of notification and registration of geographical indications for wines". In Article 24, Members agreed to enter into more generalized negotiations "aimed at increasing protection of individual geographical indication." Art. 24(1). Article 24(1) expressly commits countries to reconsider the exceptions to protection now found in Articles 24((4)-(8), and Article 24(3) contains a standstill-plus agreement that prevents Member States from reducing the protection it granted geographical indications immediately prior to the entry into force of the WTO Agreement.

Both the EU and the United States (with Japan) have recently offered skeletal proposals for an international register of geographical indications for

wines. The EU proposal, which is short on details, was discussed at the TRIPS Council Meeting in December 1998, and would extend not only to wines but also to spirits (with the possibility of adding other products at a later stage). Members would not be required to submit names to be protected (according to the EU this made the system "voluntary") but indications accepted for registration (after one year in which countries could file an opposition based on the grounds set out in the TRIPS Agreement) would be protected in all WTO countries. Critics of the EU proposal suggested that its expansion beyond wines took it outside the scope of Article 23(4) and argued that the requirement that a registered term be protected in all WTO countries belied its description as "voluntary." The lack of detail on how disputes about registration would be resolved (e.g., would WTO panels be involved) also troubled some countries. The rival U.S.-Japanese proposal — which was supported by Canada, Australia, New Zealand and Chile, among others — was discussed at the February 1999 TRIPS Council Meeting. Under this (minimalist) proposal, the WTO would publish a list (supplied by member countries) of designations being protected in each respective country, and WTO member countries would agree to refer to this list in making decisions about domestic protection. The proponents of the U.S.-Japan proposal argued that it reflected the wide divergence in countries' methods of protecting geographical indications, but the EU complained that the this rival proposal amounted to "little more than the creation of a database."

QUESTION

The United States — as revealed both by its WTO complaint against the EU and by the narrowness of its international register proposals in the TRIPS Council — is clearly unpersuaded of the case for offering broad protection to geographical indications (whether for wine or for other products). Is this a wise position for the United States to adopt? If you were a consumer advocate, for which position would you argue? If you were trying to persuade the U.S. Trade Representative to change its position, which arguments would you make? *See* Leigh Ann Lindquist, *Champagne or Champagne? An Examination of U.S. Failure to Comply With the Geographical Provisions of the TRIPS Agreement*, 27 GA. J. INT'L & COMP. L. 309, ___-___ (1999). What about wine — and about the marketing and sale of wines — might justify support for preferring geographical designations over trademarks in this one product sector? How might you use or deal with the following data: wine consumption among European is declining, but the market is expanding in Asia; Californian wines are viewed by many as the premier wines of the new world; between one quarter and one third of wine sold in the United States is marketed under what the BATF Regulations call semi-generic names; and wine sales of higher-priced wines in the United States is increasing, suggesting (it is claimed) an increasingly sophisticated wine consumer in the United States. *See id.*

5. Developments in WIPO

WIPO has long been interested in developing an international approach to geographical indications. Draft treaties have been prepared, *see* Draft Treaty

on the Protection of Geographical Indications, WIPO Doc. TAO/II/2 (1975), and model laws have been drafted, *see* Model Law for Developing Countries on Appellations of Origin and Indications of Source, WIPO Pub. No. 809(E) (1975). The Draft Treaty was largely based upon the Lisbon Arrangement, but would have extended protection beyond appellations of origin to all geographical indications. It would have absolutely prohibited trademark registration of indications of source, but given previous users of such terms five years to cease use. *See generally* J. Thomas McCarthy and Veronica Colby Devitt, *Protection of Geographic Denominations: Domestic and International*, 69 TRADEMARK REP. 199, 208-209 (1979); Lee Bendekgey and Caroline H. Mead, *International Protection of Appellations of Origin and Other Geographic Indications*, 82 TRADEMARK REP. 765, 783-784 (1992).

At the first session of the newly formed WIPO Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications in Geneva in July 1998, delegations were split on whether to give priority to work on the protection of geographical indications. The debate centered on whether or not to duplicate the work being conducted in the TRIPS Council, and not whether this was an important issue. *See* Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications, First Session (July 13-17, 1998), Report prepared by the International Bureau ¶¶ 28-29 (WIPO Doc. __-__) (_____). It was decided that the International Bureau of WIPO would continue monitoring developments in the field, and would continue preparations for a world-wide symposium to be held in the biennium. *See id.* at ¶ 31. *See also* WIPO Symposium on the International Protection of Geographical Indications, Melbourne (1995); WIPO Symposium on the Protection of Geographical Indications in the Worldwide Context, Eger, Hungary (1997).

III. THE PARIS CONVENTION

E. TRADE SECRETS PRIOR TO AND SUBSEQUENT TO THE PARIS CONVENTION

1. HISTORY

The First Successful Factory,
excerpted from Mitchell Wilson, AMERICAN SCIENCE AND INVENTION — A PICTORIAL HISTORY 84-86 (New York 1954)

The first true factory in America was not a native product. Before Samuel Slater opened his mill in Pawtucket, there were many shops which employed a number of hands; but a factory is more than many people working together under the same roof. The American factory, as Eli Whitney designed it, was the third step taken in a changing attitude towards the manufacture of goods.

Until the late eighteenth century, the form of the factory, or manufactory, was simply an enlargement of the way in which a single artisan made every part himself. When he received more orders than he himself could fill, he took in a helper who learned first by doing the simplest tasks, and then in turn reached the stage where he too was able to make the entire article by himself. In some cases, where very many men were employed, it was natural that certain workers would be given only those tasks at which they excelled, and the finished product would then be the result of several men's handiwork.

This was the method of work in shops from the times of antiquity, and it was not changed until late in the eighteenth century, when the division of labor became a conscious process. There could be no machinery developed to make the separate parts of a product until the artisan himself was aware that there *were* separate steps to be performed. Whitney's "American System of Manufacture" therefore could not be applied until this division of labor had taken place.

The English factory system, popularly identified with the cotton mills' was based on this rationalization of labor. The separate steps of carding, roving. spinning. and weaving were assigned to different groups of individuals all working under the same roof, and [Sir Richard] Arkwright was the first man to drive the primitive spinning wheels and looms by drive belts from a water wheel. Even this simple step was so revolutionary that the "water loom" — and a powered loom — became a magical phrase.

After the Revolution, many attempts were made to introduce factory methods in the new republic. The first cotton mill in Massachusetts was built in Beverly in 1787, but in three years it was ready to close. The factories generally failed because the machinery was inadequate, and because Americans preferred English importations. Various states offered bounties and rewards to encourage manufacture, but every effort failed. To import machinery from England was impossible because the British government refused to allow any of its new inventions to leave the country. The American states advertised their bounties in English newspapers to entice English workmen to emigrate; but that too was against the law. England was determined to keep its technological knowledge to

itself.

One such advertisement by the Pennsylvania Legislature appeared in Derbyshire. It was read by young Samuel Slater, just finishing his apprenticeship. He had worked for Jedediah Strutt, a partner of Arkwright, and Slater had learned how to use and repair every machine in the factory. He asked Strutt to tell him what his future might be if he remained where he was. Strutt told him to work hard and save his money and he would get his just rewards.

He knew exactly what risks he was running by trying to leave the country. He was careful to avoid taking any sketches of machinery and he did not even tell his mother and brothers of his plans. He went to London, got his passage, and just as the vessel was preparing to leave, he wrote to his family, telling them where he was going.

In 1789 he landed in Philadelphia where he made inquiries about the true situation in the republic. He was told that a mill had recently been completed in Providence by Moses Brown, the famous Quaker merchant [and patron of Brown University], and that Brown was desperately looking for a manager. Slater wrote to Brown, telling him his background and applying for the position.

Moses Brown replied at once and made this handsome offer to Slater: if he could work the machinery they had on hand, all the profits of the business less the cost and interest on the machinery were to go to Slater along with the credit as well as the advantages of perfecting the first water mill in America. In other words' Brown was willing to give the factory to Slater. There is no other record of a man applying for a job by letter and getting the entire plant by return mail.

2. British Know-how In Pawtucket

When Slater went to Pawtucket with Brown to inspect the machines, his rosy dreams wilted. "These will not do," he protested." They are good for nothing in their present condition. Nor could they be made to answer."

He proposed to make a clean start and build the series of machines which were known as the "Arkwright Patent." He had brought no drawings but he had memorized the designs of the machines invented by Crompton and Hargreaves as well as Arkwright.

Most American machinists were inadequate; the only metal articles being made were scythes, anchors, horse-shoes, nails, and cannon shot. Fortunately, a Nantucket Quaker named Oziel Wilkinson then lived with his family in Pawtucket. Wilkinson was a blacksmith who had made spades and shovels in quantity for turnpike building. He had been the first to make cold-rolled nails. Slater boarded with them, and Wilkinson was willing to help. Without him, Slater would have been helpless. . . .

On December 21, 1790, the little factory began to produce, but business was feeble. When seventy-two spindles were working and the plant had been operating for twenty months, the preference for English yarn left them with several thousand pounds that could not be moved at any price. Not until a loom was added did American cotton begin to find a market. Ten years after Slater landed in America, Almy, Brown and Slater were doing sufficiently well to open a second factory. Scores of imitators followed, but Slater kept well in the lead, and eventually the firm established mills in New Hampshire and Massachusetts,

despite the growing competition from innovators.

Drawing on his English training, Slater staffed his factory with children from four to ten years old. The machines were simple, and the parents were delighted to have their children doing something useful in pleasant surroundings. He measured his break with the English tradition by the good food and humane treatment given his hands. In England, the working children were ill-fed, beaten, driven to early drunkenness and degradation. In a time when American children were put to work around the term as soon as they could walk, the Slater factory system was very highly rated.

Slater neither invented anything, nor improved what he brought here; but he was the first in this country to set up a system of manufacture in which the successive steps of the skilled artisan were broken down into such simple components that a group of children could outproduce the finest craftsman. It was the one system ideally suited to a country that was to be plagued by a shortage of skilled manpower for another seventy-five years. No one saw any discrepancy between such a system and the American goal of enhancing the dignity and human value of the individual. The American factory fed, clothed, and equipped men for the fight against the hostile universe; and the factory system was actually considered to be a victory for the American creed of freedom.

. . .

2. MODERN INTERNATIONAL AGREEMENTS FOR THE PROTECTION OF TRADE SECRETS

The first international agreement containing any explicit provisions for the protection of trade secrets was the North American Free Trade Agreement, signed by the United States on December 8, 1993. The following year (to the day) the TRIPS Agreement also containing similar provisions on the protection of "undisclosed information", was passed by the U.S. Congress. Article 39 of TRIPS was discussed above in Chapter Three in connection with the incorporation of Article 10*bis* into U.S. law.

Adrian Otten & Hannu Wager, COMPLIANCE WITH TRIPS: THE EMERGING WORLD VIEW
29 Vand. J. TRANSNAT'l L. 391, ___-___ (1996)

The TRIPS Agreement contains a section that, for the first time in international public law, explicitly requires undisclosed information (trade secrets or know-how) to benefit from protection. 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 have the ability to prevent it from being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices. 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 that use new chemical entities. In such a situation, the member state concerned must protect the data against unfair commercial use.

NORTH AMERICAN FREE TRADE AGREEMENT

Article 1711: Trade Secrets

1. Each Party shall provide the legal means for any person to prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as:

(a) the information is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally deal with the kind of information in question;

(b) the information has actual or potential commercial value because it is secret; and

(c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.

2. A Party may require that to qualify for protection a trade secret must be evidenced in documents, electronic or magnetic means, optical discs, microfilms, films or other similar instruments.

3. No Party may limit the duration of protection for trade secrets, so long as the conditions in paragraph 1 exist.

4. No Party may discourage or impede the voluntary licensing of trade secrets by imposing excessive or discriminatory conditions on such licenses, or conditions that dilute the value of the trade secrets.

5. If a Party requires, as a condition for approving the marketing of pharmaceutical or agricultural chemical products that utilize new chemical entities, the submission of undisclosed test or other data necessary to determine whether the use of such products is safe and effective, the Party shall protect against disclosure of the data of persons making such submissions, where the origination of such data involves considerable effort, except where the disclosure is necessary to protect the public or unless steps are taken to ensure that the data is protected against unfair commercial use.

6. Each Party shall provide that for data subject to paragraph 5 that are submitted to the Party after the date of entry into force of this Agreement, no person other than the person that submitted them may, without the latter's permission, rely on such data in support of an application for product approval during a reasonable period of time after their submission. For this purpose, a reasonable period shall normally mean not less than five years from the date on which the Party granted approval to the person that produced the data for approval to market its product, taking account of the nature of the data and the person's efforts and expenditures in producing them. Subject to this provision, there shall be no limitation on any Party to implement abbreviated approval procedures for such products on the basis of bioequivalence and bioavailability studies.

7. Where a Party relies upon a marketing approval granted by another

Party, the reasonable period of exclusive use of the data submitted in connection with obtaining the approval relied upon shall commence with the date of the first marketing approval relied upon.

. . .

III. F. SUI GENERIS PROTECTION OF PLANTS

FREE DISTRIBUTION VERSUS CONTROLLED CULTIVATION

As early as 1556, Spain's Council of the Indies (convened in Madrid) passed legislation making it illegal for foreigners to explore for plants in Spain's New World possessions. During the 17th and 18th centuries, botanical gardens were established in many European metropolitan states, the most famous being the British Empire collection of plants at Kew Gardens outside London. Such botanical gardens were established to develop systematic collections of plants for study, development, distribution, and commercialization throughout the colonial empires. Plant specimens were not distributed except in connection with the establishment of plantations within the British colonies controlled from London. A mere 100 plants were introduced to Great Britain during the 16th century. That figure rose to 1000 in the 17th and 9000 in the 18th centuries. A memorable example was Captain Bligh's mission on the *Bounty* to bring back breadfruit plants from Tahiti for plantations in the British West Indies.

Common staples from the Americas such as maize, potatoes, squash, tomatoes peanuts, beans, sunflowers were transferred to the eastern hemisphere. But equally if not more important were strategic plants requiring tropical empires such as spices, sugar, bananas, coffee, tea, rubber, and indigo. The Darjeeling tea industry was started in Calcutta with plants shipped on British ships from Shanghai. The rubber plantations of southeast Asia were built on propagations from disease-free rubber trees spirited out of northeast Brazil in 1876. Within a few years, Brazil's share of rubber exports plummeted from 100% to 5 % while the British share rose from zero to 75 percent. Northeast Brazil became a depressed area and remains so to this day. Similarly, expensive cinchona exports from the Andes used to extract quinine for malaria treatment dropped 75% in a three-year period in the 1880s as production began on British colonial plantations in labor-rich Asia.

Control of plant production within the European empires emanated from control of the physical plants themselves. "The U.S. government made no effort to limit or control the dissemination of the plants it collected. In fact, the aim was to spread seeds widely and encourage the expansion and adaptation of American agriculture." CARY FOWLER, UNNATURAL SELECTION: TECHNOLOGY, POLITICS AND PLANT EVOLUTION xvii (Amsterdam 1994). (Much of the following discussion is based on Fowler's account.)

Plant collection did not begin in earnest in the United States until Henry Ellsworth, a large landowner, became the first Commissioner of Patents in 1836. Ellsworth established a seed collection and distribution program at the Patent Office in 1839. The Shaker colonies of the northeast U.S. had been the first to develop seed packets for distribution. That function was taken over by the U.S. Patent Office in 1849 and later transferred to the Department of Agriculture.

In the late 19th century, over one-third of the budget of the U.S. Department of Agriculture was devoted to seed collection and distribution. The structure of American farming after the Civil War was quite different from that in the colonial empires and the ante-bellum South. American farms were small. Farmers were seed savers because of a lack of commercially reliable sources.

That changed between 1860 and 1920. Commercial seed companies began to develop new seeds, and it became more economical for farmers to purchase new varieties produced by the commercial companies than to breed their own varieties.

LEGAL PROTECTION FOR NURSERIES PRODUCING ORNAMENTAL PLANTS AND FRUIT TREES

The United States Congress passed the Plant Patent Act of 1930 at the behest not of commercial seed companies but of commercial nurseries. In the United States, the plant patent statute (35 U.S.C. §§ 161-164) protects asexually reproduced plants commercially propagated through cuttings (clones) or grafts as opposed to seeds. Whereas plant breeders (seed companies) can be thought of as inventors, nurserymen are more properly described as discoverers. Practically all varieties of fruits are the result of chance discoveries and there is no "scientific" breeding of new varieties. In contrast to farmers, for whom the starting material is the same as the final product, the commercial nurseries do not compete with their customers because it is more cost-effective for orchards and gardeners to buy stock than to raise it. The grant of the plant patent is the right to exclude others from asexually reproducing the plant or selling or using the plant so reproduced. 35 U.S.C. § 163.

The scope of protection for plant patents is very limited. Plant patent law covers fruits and flowers such as roses but specifically excepts potatoes and Jerusalem artichokes from coverage as well as all seed-propagated plants. Tuber-propagated plants alone among asexually reproduced plants are propagated by the same part of the plant that is sold as food. When the Plant Patent Act was passed, it was thought to have been politically inexpedient to include products which were staple foods such as corn, wheat, rice, and potatoes.

LEGAL PROTECTION FOR SEEDS (PLANT VARIETIES)

Plant breeding for uniformity was still rudimentary in the 1930s, so there was neither much pressure for patent protection or ability to meet patent uniformity standards. The Netherlands adopted its Breeder's Ordinance in 1941, which provided a limited exclusive right for breeders of agriculturally important species to market the first generation of certified seed and a broader right to market propagating material. Corporate breeding programs began in earnest in the 1950s. Scientific plant breeding uses the principles of Mendelian genetics through sexual reproduction to produce consistent characteristics (desirable traits) which were not achieved by a blending of the characteristics of the parents as had been previously thought but by isolating them. When two closely related variations are crossed, there is produced a generation of inbreds which display what had been a recessive trait. The inbreds are then recrossed producing a hybrid which has the strength of the starting generation and displaying what had been a beneficial recessive trait in a ratio of 1:3. The breeder can place a "technological lock" (sometimes called "nature's patent") on the improved strain because only inbreds breed true, whereas hybrids do not. Therefore, breeding companies which sell the hybrid seeds but strictly control access to the inbreds thereby maintain the hybrid as a trade secret. Once the inbreds have been identified and preserved, the

resultant hybrid is stable and will always have the same consistent traits. The customers of seed companies (the farmers) can own the seed they purchase, but the seed produced does not constitute breeding material.

THE UPOV CONVENTION

There developed a split between seed companies (particularly seed corn producers) which pursued research into hybrids and non-breeding seed companies which did not. Pressure from research-oriented seed companies investing in hybrid research grew toward recognition of "plant breeder's rights" protecting them from generic seed companies which did not. The Union for the Protection of New Varieties of Plants ("Union pour la Protection des Obtentions Végétales" [UPOV]) was drafted at the International Convention of the same name and adopted by member nations on December 2, 1961 at a diplomatic conference in Paris. The treaty made the various breeder's rights laws of the signatories subject to the principle of national treatment and provided a definition of "variety" to apply "to any cultivar, clone, line, stock or hybrid which is capable of cultivation" (Article 2) as long as it is "clearly distinguishable by one or more important characteristics from any other variety whose existence is a matter of common knowledge at the time when protection is applied for." The variety also had to be capable of precise description and be given a denomination by which it would be known which was not proprietary. The position of Secretary-General of the Union is held by the Director-General of WIPO.

Nine years after the first international convention of UPOV, in 1970, the United States adopted the Plant Variety Protection Act. [PVPA] (7 U.S.C. §§ 2321 et. seq.) Like the UPOV Convention, the PVPA does not provide patent-like protection. It is a registration system which issues a Certificate of Plant Variety Protection to the breeder of any novel variety of sexually reproduced plant. The certificate holder has the exclusive right to sell or reproduce the plant, or to use it to produce (as distinguished from develop) a hybrid or different variety, extending for a period of eighteen years from the date of issue. Both of these sui generis forms of protection prevented other companies from multiplying and reselling registered varieties. Protection is provided for the varieties themselves — not the genes which determine their traits, and under the 1978 Act breeders are left free to use protected varieties to produce new varieties. Six vegetables were omitted from coverage (carrots, celery, cucumbers, okra, peppers or tomatoes) due to opposition not from farmers but from large food processors such as the Campbell Soup Company which develop and consume their own varieties of those crops and traditionally benefit from publicly and privately available germplasm stocks.

The UPOV Convention was amended in 1972, 1978, and 1991. The U.S. joined the 1978 version of the Convention in 1981. By 1973, U.S. farm exports came to exceed chemicals and consumer goods in value. Viewed biologically, both laws provided protection for varieties, that is, for certain combinations of genes. The genes themselves were not made patentable. Breeders are left free to use patented varieties (with unpatented genes) to produce new combvinations of genes and new patentable varieties. Furthermore, farmers retained the "right" to save his or her protected seed for replanting (or for resale, if the farmer was not principally in the business of reselling protected varieties.)

Under the 1978 Act, a breeder is entitled to protection even if the variety for which protection is sought is a naturally occurring plant. Under the 1991 Act, discovery of a naturally occurring plant is not sufficient. The breeder must have somehow developed the variety in order to secure protection. Article 5(3) of the 1978 Act allowed other breeders to use a protected variety for creating new varieties without authorization.

Conditions for grant were tightened and the scope of the breeder's rights were extended significantly under the 1991 UPOV Act. To receive protection, a variety must meet the requirements of novelty, distinctness, uniformity, and stability. Extension of the scope of the right includes requiring authorization for any multiplication for production. The "farmer's right" to store and plant seed was replaced by a "farmer's privilege" requiring authorization of the breeder. The exception for experimentation and creation of other varieties was narrowed to eliminate use to create a variety which is an essential derivation of the protected variety. (Article 15) It was thought that modern biotechnology allows such close manipulation of genes that there was increasing likelihood for minor variations to be exploited as loopholes to protection of the variety — so-called "cosmetic breeding." The accession of Bulgaria and the Russian Federation on 24 March 1998 triggered the entry into force of the 1991 Act on 24 April 1998. As of that date, there were 37 members of the Union and 7 signatories of the 1991 text. (Bulgaria, Denmark, Germany, Israel, Netherlands, Russian Federation, and Sweden.)

Critics of plant breeder's rights complain of the growing separation between the farmer and the tools of farming. Farmers dependent on commercial seed producers for ever more efficient and pesticide/herbicide compatible hybrids no longer retain their old seed varieties. "The explosion of diversity which had been ignited by seed collection and distribution programs and by immigration was wiped out as farmers ceased saving their own seed. Irrespective of the quality of these varieties relative to purchased seed, the farmer lost a measure of self-reliance in the process. And some portion of the germplasm itself, with all of its adaptation to different American environments, pests, diseases, and cultures became extinct, never again to be seen or used by a farmer or professional plant breeder." FOWLER, *supra* at 118. "Genetic erosion" is an unintended consequence of modern plant breeding. To the extent that a breeder produces a successful variety, it may displace genetic material needed for future breeding programs.

Advocates of UPOV's system of breeder's rights point out that by the year 2020, the world population may reach 8 billion with 83 percent living in developing countries. As productive farmland shrinks in the wake of urbanization, there is no option but to produce more food on less land. It becomes clear that the relevance of the small farmer is fading and the world is moving toward food production by agribusiness. (*See*, *e.g.*, <http://www.upov.int/eng/newplant/needvar.htm> The relevance of sui generis protection for plants where utility patent protection is allowed for the underlying genetic material is open to question in developed countries. However, American companies are supportive of the United States entering the 1991 Act for purposes of achieving national treatment in those countries which choose to use a sui generis system. Under the TRIPS Agreement, Article 27(3)(b), WTO members must provide either patent protection or sui generis protection for plants.

. . .

CONVENTION FOR THE PROTECTION OF PLANTS
S. Treaty Doc. No. 104-17, Signed October 25, 1991
Read the first time in the Senate September 5, 1995

LETTER OF SUBMITTAL

DEPARTMENT OF STATE
Washington, May 10, 1995.

The PRESIDENT,
The White House.

I have the honor to submit to you [the 1991 Act of the UPOV Convention]. I recommend that the 1991 Act of the UPOV Convention be transmitted to the Senate for its advice and consent to ratification, subject to a reservation under Article 35(2) of the 1991 Act, which allows states party to the 1978 Act to retain their present patent systems for certain varieties of plants.

. . .

Member States of the Convention constitute the International Union for the Protection of New Varieties of Plants (the UPOV Union), whose objective is to promote the protection of the rights of plant breeders in new plant varieties. . . .

Several considerations prompted the member States to revise the Convention at a Diplomatic Conference held in Geneva, Switzerland in March of 1991. Those considerations were: 1) recognition that the protection offered to breeders under previous Acts of the Convention was not adequate; 2) the need for the Convention to reflect technological changes in the breeding of new plant varieties; and 3) the need to clarify certain provisions of the 1978 Act.

Ten member States of UPOV signed the 1991 Act at the conclusion of the Conference. The 1991 Act remained open for signature by UPOV member States until March 31, 1991, by which time 16 States, including the United States, had signed the Convention.

. . . In the United States, implementing legislation was enacted as Public Law 103-349, on October 6, 1994.

The main aim of the Convention is to promote the protection of the rights of the breeder in new plant varieties. In that regard, the Convention not only requires member States to provide protection for new varieties of plants, but also contains explicit and detailed rules on the conditions and arrangements for granting protection. Further, it prescribes the scope of protection, including possible restrictions and exceptions thereto, establishes, with some limitations, the principle of national treatment for plant breeders from other member States, and provides for a right of priority.

The Convention, as revised by the 1991 Act, would afford additional protection to plant breeders, as follows:

First, the 1991 Act requires Contracting Parties, after certain transitional periods, to protect varieties of all genera and species of the plant kingdom.

Second, the 1991 Act redefines a breeder's right to cover, among other things, the production of a variety's propagating material by others for any purpose. The 1991 Act also expressly permits member States to exclude from the reach of the breeder's right, the practice of farmers to save seed.

Third, the 1991 Act extends breeders' rights to include harvested material of the protected variety.

Fourth, the 1991 Act puts an end to the common practice, permitted by the present Convention, of using protected varieties to derive and freely commercialize other varieties that, although differing to some degree, maintain the essential characteristics of the initial variety.

Finally, the 1991 Act is silent regarding the title of protection under which a breeder's right may be granted. This would afford member States the freedom to provide protection for plant varieties through patents and sui generis breeders' rights, thus affording them greater flexibility in determining how to protect new plant varieties most effectively.

These and other features of the 1991 Act would enhance the protection afforded to breeders of new plant varieties not only in the United States, but also in those future member States where patent protection for plant varieties is not now obtainable, and in present member States where protection of plant breeders' rights is either weak or unavailable for a significant number of plant species and genera.. . . .

Prompt ratification of the 1991 Act of the UPOV Convention will demonstrate the United States commitment to effective protection for intellectual property in the area of new plant variety development. Ratification of this Convention is consistent, therefore, with United States foreign policy of encouraging other countries to provide adequate and effective protection for intellectual property generally, and for new plant varieties in particular.

I recommend, therefore, that the 1991 Act of the UPOV Convention be transmitted to the Senate as soon as possible for its advice and consent to ratification, subject to a reservation under Article 35(2), which allows parties to the 1978 Act to retain their present plant patent systems for certain varieties of plants.

Respectfully submitted,

PETER TARNOFF

TRIPS Agreement, Article 27

1. Subject to the provisions of paragraphs 2 and 3 below, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Subject to paragraph 4 of Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article, patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.

. . .

3. Members may also exclude from patentability:

. . .

(b) plants and animals other than microorganisms, and essentially biological processes for the production of plants or animals other than non- biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective sui generis system or by any combination thereof. The provisions of this sub-paragraph shall be reviewed four years after the entry into force of the Agreement Establishing the WTO.

NOTES AND QUESTIONS

1. As the scope of patentable subject matter for biotechnology expands, what is the role of "breeder's rights?" The Chief Patent Counsel of a multinational agribusiness company stated to your editor that his company rarely uses the PVPA registration system, but strongly supports U.S. entry into the 1991 UPOV Convention. Why?

2. A 1988 report of the Office of Technology Assessment noted substantial increases in private investment in agricultural research following the *Chakrabarty* decision. The same study also notes that investment shifted toward research on major crops such as corn and soybeans, and away from research on minor crops at the same time that the USDA abandoned its role in seed and plant variety development and genetic erosion concerns grow. Is the policy trade-off worth the risks? *See* U.S. Congress Office of Technology Assessment, New Developments in Biotechnology: Patenting Life Y3.T22/2:2B52/4/V.5/pt.3/agric, pp. 75-81.

3. A good summary of the 1991 amendments to the UPOV Convention can be found in Barry Greengrass, *The 1991 Act of the UPOV Convention*, 12 E.I.P.R. 466 (1991)

4. The U.S. Plant Patent Act protects only against copying and not against independent discovery or invention. *See* David Bennett Bernstein, *Is a Plant Patent a Form of Copyright?*, 25 IDEA 31 (1985)

5. Changes are underway in developing countries regarding the protection of plant varieties, in compliance with Article 27 of the TRIPS Agreement. Not all parties are pleased at the prospect of India's entry into sui generis protection of plant varieties. *See* Biswajit Dhar and Sachin Chaturvedi, *Introducing Plant Breeders' Rights in India — A Critical Evaluation of the Proposed Legislation*, 1 J. WORLD INTELLECTUAL PROP. 245 (1998).

6. The OECD Committee for Scientific and Technological Policy released a report in 1996 summarizing the genetic resource issue and explaining how the new international context created by the Biodiversity Convention and the TRIPS agreement might influence the exploitation of genetic resources. *See* Intellectual Property, Technology Transfer and Genetic Resources – An OECD Survey of Current Practic es and Policies (OECD, 1996), < http://www.oecd.org/dsti/ biotech/>.

7. According to a "Statement from Peoples' Movements & NGOs in Southeast Asia to the World Trade Organization" dated May 1998 and published by the Filipino Farmer/Scientist Partnership for Development:

Rice is life in Southeast and other parts of Asia. It has been the cornerstone of our food, our languages, our cultures--in short, our life for thousands of years. Over the centuries, farming communities throughout the region have developed, nurtured and conserved over a hundred thousand distinct varieties of rice to suit different tastes and needs.

The Green Revolution spearheaded by the International Rice Research Institute (IRRI) in the 1960s resulted the loss of this diversity from farmers' fields and the spread of wholly unsustainable farming systems which require high energy inputs such as pesticides, fertilizers, so-called 'high-yielding' seeds, irrigation systems and supervised credit schemes. In this process, farmers lost control of their own seeds, their own knowledge and their own self-confidence. Today, people are struggling throughout the region to rebuild more sustainable agriculture systems hinged on farmers' control of genetic resources and local knowledge.

In the past, the whole cycle of the rice economy was under the control of farmers themselves, from production through distribution. Today, global corporations are taking over the rice sector. With the expansion of industrial farming, global corporations--and their local subsidiaries established their predominance in the rice sector through research programs, interference in policy--making, and their exports of farm machinery, pesticides and fertilizers. Now, through the use of genetic engineering, they are increasing their control over our rice cultures. The kinds of rice that we are promised through this technology threaten the environment and public health. For example, herbicide tolerant rice will lead to increased pesticide use. Rice incorporating Bacillus thuringiensis genes will disrupt ecological balances. Both of these are unsafe for consumers and will lead to allergic reactions, increased antibiotic resistance and other health hazards. New hybrids--such as those based on the so-called 'Terminator Technology'--will force farmers to buy rice seed every planting season from transnational corporations.

The extension of the patent system through the [TRIPS Agreement] gives global corporations the right to claim monopoly ownership over rice--and life itself. Companies in the industrialized world have already started to claim intellectual property rights on rice. A derivative of IR-8, IRRI's 'miracle rice', was monopolised through IPR in the United States already in the 1980s. Recently, RiceTec, a company in Texas, has taken out a patent on basmati rice. This is biopiracy against India and Pakistan. The same company and many others in the US are now marketing what they label as Jasmine rice. This is not only intellectual and cultural theft, it also directly threatens farm communities in Southeast Asia. Jasmine rice comes from Thailand, where it is grown today by over five million resource-

> poor farmers who are trying to develop ecological alternatives for Jasmine ice production and marketing." (From: MASIPAG <masipag@mozcom.com>)

Are these claims legitimate? The issues will be explored further below in the discussion of the European Directive on Biotechnological Inventions.

IV. THE BERNE CONVENTION

A. General Concepts and Background

Shira Perlmutter, FUTURE DIRECTIONS IN INTERNATIONAL COPYRIGHT
16 Cardozo Arts & Ent. L. J. 369, 372-77 (1998)

. . . Links are forged between [national copyright] laws by international relationships, including formal treaties, regional commitments, and the ongoing give and take of trade interactions. . . .

A. *National Laws*

[Some] harmonization [of national laws] has also been accomplished on a regional level. The major initiatives to date have taken place within the common market of the European Union ("EU"). The EU has engaged in a process of harmonizing the copyright laws of the member states in areas that affect their common market, by issuing several directives requiring them to implement detailed provisions relating to specific rights or subject matter. While there have been some difficulties with adequate and timely implementation, the eventual result will be greater homogeneity within the EU, beyond the level of harmonization that has been achieved elsewhere. At the same time, by conditioning rights for non-Europeans on reciprocity, these directives apply real economic pressure on other countries to harmonize their systems to the same extent.

B. *Copyright Treaties*

One major set of links among national systems is supplied by international treaties on the subject of copyright and neighboring rights. Chief among these treaties is the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention"). Dating back to 1886, the Berne Convention today enjoys a membership of more than 120 countries. . . .

Another multilateral treaty, the Universal Copyright Convention ("UCC"), which came into being in the 1950s, also has a substantial number of adherents. In the past decade, however, since the United States joined the Berne Convention, the UCC has been eclipsed in importance, due to Berne's more extensive protection and wider membership.

There is one major limitation on the coverage of both Conventions: They do not protect performers or producers of sound recordings. In many other countries of the world, the contributions of performers and producers are not considered to be copyrightable subject matter, but are protected instead by what are called "neighboring rights." The preeminent treaty dealing with neighboring rights is the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations ("Rome Convention"). The Rome Convention operates on similar principles to Berne, setting out minimum rights and requiring national treatment (albeit in a more limited form). Its influence has

been less pervasive, however, both because it permits countries to pick and choose among rights, and because it has a narrower membership, not including the United States.

Bilateral agreements have also played a major role in international copyright. Beginning in the nineteenth century, many countries took their first steps toward protecting foreign works on a country-by-country basis. Today, bilateral treaties are of primary importance in dealing with countries that are not yet party to the major multilateral conventions, or obtaining commitments in areas not covered by those conventions.

C. *Trade Agreements*

Another set of international links is created by trade agreements. In recent years, intellectual property has been recognized as an important component of trade between countries, and copyright provisions have been included in a number of their agreements on trade issues.

For the United States, the inclusion of intellectual property on the trade agenda led to copyright provisions in the North American Free Trade Agreement ("NAFTA"), which entered into force in 1994. NAFTA was shortly followed by the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), which was concluded in the Uruguay Round of negotiations leading to the creation of the World Trade Organization ("WTO"), and entered into force in 1995. . . .

D. *Bilateral Trade Relations*

A critical element in the pattern of international copyright is the interaction between individual countries relating to trade. In the context of such interactions, including the establishment of watch lists under U.S. trade laws, the United States has convinced other countries to adopt treaty norms and generally increase their levels of protection and enforcement in several ongoing initiatives. . . . .

Copyright is also becoming important in agreements dealing with the protection of investment. The United States is currently a party to a number of Bilateral Investment Treaties ("BITS") that define intellectual property as a form of investment, subject to significant national and MFN treatment obligations, requiring foreign investors to be treated as well as domestic investors. In the Organization for Economic Cooperation and Development ("OECD"), negotiations [were] underway for some time on a Multilateral Agreement on Investment ("MAI"), which would [have] extend[ed] this concept to a multilateral agreement among the world's most developed countries. . . .

NOTE

The MAI negotiations, which took place in the mid to late 1990s, were ultimately derailed by highly politicized disputes over the need for a cultural exemption, as well as other issues not related to intellectual property (primarily environmental and labor issues).

Sam Ricketson, THE BIRTH OF THE BERNE UNION
11 Colum.-VLA J. Law & Arts 9 (1986)

We are celebrating today the centenary of the first true multilateral convention on copyright, the Berne Convention for the Protection of Literary and Artistic Works. I use the adjective "true" advisedly, as prior to the Berne Convention there had been other multilateral conventions on copyright. However, these had been of limited territorial effect and had been entered into in order to overcome particular political problems, such as those that existed in Germany and Italy prior to the unification of those countries. The Berne Convention, on the other hand, was open to all states without restriction, as long as they were prepared to comply with the obligations embodied therein. It is also important to see the convention in a broader context as it was only one of a series of impressive multilateral conventions that came into existence during this period. Of these, the International Telegraph Convention, the Universal Postal Convention, and, of course, the Paris Convention for the Protection of Industrial Property still remain in force today. The Berne Convention, then, can be seen as a manifestation of a period when human society was attempting, in a high-minded but practical spirit, to bring about change and development across a whole range of matters through international cooperation. . . . [M]y task here is to outline the circumstances and events that led to its formation.

In 1886, most national copyright laws were not much more than a few decades old. The United Kingdom was, of course, an exception as it had enacted the first modern copyright statute as far back as 1709 (the "Act of Anne"). The scope of this Act was quite limited, and it was restricted to books, but during the next hundred years protection was extended in piecemeal fashion to other kinds of works, including engravings, sculptures and dramatic works. In most other European countries, however, the situation as regarded the protection of authors was similar to that which had obtained in the United Kingdom prior to 1709: there was not express recognition of authors' rights, and the only protection available was that accorded through the grant of privileges or monopolies for the printing of particular books. These privileges were usually granted by governments to publishers and printers, rather than authors. . . . A similar situation prevailed for longer in most European countries, in particular France, the German and Italian states, and Spain. Even in this country, the members of the Stationers' Company strove long and hard throughout the eighteenth century to retain their traditional privileges with respect to the printing of books. Thus, it was not until the end of that century that it was firmly established that the rights accorded under the Act of Anne were authors' rights, rather than publishers' or printers' rights. In France, on the other hand, completely new ground was broken when the ancien régime was swept away by the revolution of 1789. The rights of man, now enshrined in the new revolutionary laws, were soon recognized to include the rights of authors in their works. A Law of 1791 therefore accorded an exclusive right of public performance to the authors of dramatic and musical works for a period lasting five years after their deaths. A second Law of 1793 granted, in respect of all works, what we would now call an "exclusive reproduction right," enduring for the life of the author. There was a conscious philosophical basis to these laws that was lacking in the Act of Anne, in that the former conceived of the rights of authors as

being rooted in natural law, with the consequence that these laws were simply according formal recognition to rights that were already in existence. In the years following the French Revolution, this new conception of authors' rights spread to other continental European countries, in particular Belgium, the Netherlands and the Italian states. It also influenced the adoption of copyright laws in the various German states after the dissolution of the Holy Roman Empire brought an end to the system of imperial privileges that had formerly applied in those states. Other European countries followed suit, and by 188 almost all the European states, including the newly unified states of Italy and Germany, had enacted their own copyright laws. Outside of Europe, the United States had had a copyright law since 1791, and laws on copyright were to be found in seven other states of Latin America. A number of other countries, such as Greece, Bulgaria and Turkey, protected authors' rights in a partial or incidental fashion through provisions in their general civil, criminal or press laws.

Many of these new laws drew on the models provided by the two French Laws of 1791 and 1793, although it should be noted that French copyright law continued to develop rapidly throughout the nineteenth century and to do so as much through the jurisprudence as through legislative enactments. Nevertheless, while the principal issues addressed by national laws were the same, the solutions adopted were often quite different. Most laws extended protection to a wide range of productions of a literary and artistic character, including works intended for public presentation, such as musical and dramatic works. But some categories of works, such as architectural, oral and choreographic works, were protected only in a few countries, and there were widely differing approaches to the protection of photographic works. Great diversity also existed in relation to the matter of duration of protection. In two Latin American countries, Guatemala and Mexico, this was perpetual, but in all other countries protection was limited in time. This was usually for a period comprising the life of the author together with a fixed period after his death. France had led the way here with a post mortem auctoris term of 50 years, but in 1879 Spain adopted a period of 80 years, and other nations had terms ranging between 5 and 50. A few other countries, such as the United States of America, had terms that were not fixed to the life of the author, and some, including the United Kingdom, accorded different terms of protection to different categories of works. Finally, in Italy there was a system of paying public domain, under which works were protected absolutely for a given period (the author's life or 40 years after publication), and this was followed by a further period of 40 years during which the work might be used by third parties subject to a payment of a compulsory royalty to the author.

The rights protected under these early national laws also varied considerably, although the principal ones recognized were those of reproduction and public performance. The right to make translations was recognized to differing degrees, and was often of far shorter duration than the other rights, particularly in the case of foreign authors. The scope of the reproduction right was also variously interpreted: some countries, for example, did not consider that artistic works in one dimension were infringed by the making of a reproduction in another dimension and the matter of adaptation of works was treated in widely differing ways. Again, the reproduction of musical works by mechanical devices, such as piano rolls and music boxes, was not considered as an infringement in

certain countries. Most national laws recognized exceptions and limitations to the exercise of rights, for example, for educational or religious purposes, but, once again, there were great variations here. Finally, most laws required that the author comply with some kind of formality before protection would be accorded. The nature and effect of these formalities differed widely from country to country, but the chief ones were registration, the deposit of copies, and the making of declarations. In some cases, failure to comply with formalities was fatal, meaning that the work fell into the public domain; in other cases, it meant merely that the copyright owner was unable to enforce his rights until he rectified the omission. By 1886, only a few countries, including Belgium, Germany and Switzerland (but not France), had abolished formalities altogether.

The above sketch has concentrated on the contents of national copyright laws in the pre-1886 period. However, it will be clear that there is an equally important international dimension to the protection of authors' works. Literary and artistic works and musical compositions recognize no national boundaries, even where translation into another language is required for a work to be fully appreciated in a particular country. Thus it was that after the need for protection of authors by national laws had been recognized, the works of these authors still remained vulnerable to copying and exploitation abroad. These activities, commonly referred to as "piracy", had been a long established feature of European social and cultural life, and this continued to be the case for a considerable time after the enactment of national copyright laws. The attitudes of many countries to these practices were highly anomalous: whilst prepared to protect their own authors, they did not always regard the piracy of foreign authors' works as unfair or immoral. Some countries, in fact, openly countenanced piracy as contributing to their educational and social needs and as reducing the prices of books for their citizens. The particular victims of these practices were the United Kingdom and France. During the eighteenth century English authors suffered from the activities of Irish pirates who could flood both the English and other markets with cheap reprints; after the Act of Union with Ireland in 1800, the chief threat came from the publishing houses of the United States and this continued to be a major problem for the rest of the century. French authors, in turn, suffered from the activities of pirates located in Switzerland, Germany, Holland, and in particular, Belgium. By the early nineteenth century, Brussels was a major center for the piracy of French books, and this led to considerable strains in the relations between France and Belgium. Piracy was likewise rampant between the different German and Italian states.

This widespread piracy of foreign works was the principal reason for the development of international copyright relations in the mid-nineteenth century. The arguments that raged both for and against the protection of foreign authors at this time have a surprisingly modern ring to them. On the other hand, it could be said that the activities of the pirates resulted in cheaper copies and the greater availability of the work in question. In countries hungry for knowledge and enlightenment, this could only be to the advantage of the public interest; and this, indeed, was the reason for the persistent refusal of the United States to protect foreign works throughout the nineteenth century. On the other hand, the moral and practical arguments in the author’s favor were obvious: not only was he being robbed of the fruits of his creativity, but this would discourage him from

continuing to create, with resultant loss to his own, and other, countries.

It is hard to identify the point at which a country no longer sees advantage in the piracy of foreign works, and decides to extend protection to the authors of such works. It may be that the activities of its own authors have increased, and that the latter now desire protection for their own works abroad. It may also be that, after a while, a country wishes to obtain some kind of international respectability, and to avoid the opprobrium of being labelled as a nation of pirates. Another factor may be that countries with large literary and artistic outputs bring pressure to bear on their more recalcitrant neighbors, promising various forms of trade advantage in return for copyright protection for their authors. Finally, a pirate nation may come to recognize that the rights of authors in their works are of a proprietary nature, and that they should therefore be protected internationally in the same way as other property of foreigners. All these factors were certainly applicable in the case of Belgium, which, in the mid-nineteenth century, switched suddenly from being the chief center of piracy for French works to being one of the most zealous defenders of authors' rights. The same factors applied to many other countries as they began to enter into international copyright relations with each other. Indeed, agreements between states and the formal sanctions of copyright law are not always necessary to achieve protection for foreign authors, at least in a limited form, as systems of "courtesy" copyright operated with some effect during this time and sometime predated formal international agreements. This was particularly so in the Untied states, where the major publishing houses observed an unwritten custom whereby each would refrain from publishing editions of foreign works in respect of which another had reached a publishing agreement with the author. This system of mutual self-restraint had several advantages for the parties concerned: it protected the first American publisher of a foreign work from the unfettered copying of his edition, and gave the author the opportunity of earning some remuneration, even if he were unable to prevent the American publication of his work in the first place. As a consequence, authors such as Dickens and Trollope received large sums in respect of the American sales of their works, although they did not enjoy protection under United States copyright law.

"Courtesy copyright," however, is only a partial substitute for full copyright protection, and, in any case, it was not really of great significance outside the American market. Many European countries therefore began to take more formal steps to secure the protection of their authors abroad. In a bold move in 1852, France passed a decree extending the protection of its laws to all works published abroad, irrespective of whether the law of the country in question accorded corresponding protection to the works of French authors. This measure was consistent with the philosophical basis of French copyright law, according to which authors' rights, being natural rights of property, should not be subject to artificial restraints such as nationality and political boundaries. Nevertheless, a practical motivation also lay behind the decree. Up to this time, France had found other nations reluctant to enter agreements for the protection of French works on a reciprocal basis. She therefore hoped that the unilateral grant of protection to authors from these countries in France would "shame" them into responding in like manner. Whether or not there is a causal connection is hard to say, but the fact remains that after 1852 the blockage cleared, and France entered agreements

with a large number of their nations under which each agreed to accord protection to the works of the other.

Bilateral copyright agreements of this kind had, in fact, become quite common by the middle of the century. The first country to enter such agreements was the Kingdom of Prussia which made 32 of these with the other German states in the years 1827 to 1829. The basis of these agreements was simple or formal reciprocity, under which each state undertook to accord to the works of the other state the same treatment that it accorded to its own works (the principle of "national treatment"). These early German agreements, however, were of a special character, as their purpose was to fill the gap left by the failure of the legislature of the Germanic Confederation to enact a federal copyright law. Subsequent bilateral agreements between fully autonomous states tended to include more substantive provisions embodying common rules that each country undertook to apply to the works of the other, in addition to the basic principle of national treatment. The basis of these agreements thus came closer to what is called "material" or substantive reciprocity under which there is approximate parity between the level of protection accorded by each state to the works of the other. The first example of such a treaty was that between Austria and the Kingdom of Sardinia in May 1840, and France and the United Kingdom, the two leading literary countries of the period, were not far behind. By 1886, there was an intricate network of bilateral copyright conventions in force between the majority of European states, as well as with several Latin American countries. Of these, France was party to the most agreements (13), followed closely by Belgium (9), Italy and Spain (8 each), the United Kingdom (5) and Germany (5).

The basis of the majority of these conventions was national treatment, but, as stated above, they also contained a number of common rules which each country undertook to apply in its protection of works from the other country. There was usually a statement of the categories of works covered by the agreement, and specific provision was generally made for the protection of translation and performing rights. Restrictions in respect of particular kinds of use were also often allowed relating, for example, to education or the reproduction of newspaper articles. The scope and detail of these provisions differed considerably from one convention to another, but the most "advanced", in terms of protection of authors' interest, were to be found in the conventions made by France, Germany and Italy in the early 1880s. With regard to duration of protection, most of the pre-1886 conventions required material reciprocity, providing that country A was not obliged to protect the works of country B for any longer period than that accorded by state B to its own works, and in any event for no longer than country A protected its own nationals.

There were wider discrepancies with respect to formalities: under some conventions, compliance with the formalities of the country of origin of the work was sufficient to obtain protection in the other state; in other conventions, it was necessary for an author to comply with the formalities of both states. Matters were further complicated by the fact that the duration of many conventions was uncertain, in that they were linked to some wider treaty of trade or commerce between the countries in question and might suddenly fall to the ground if the latter was revoked or renegotiated. Another source of uncertainty arose from the insertion of "most favored nation" clauses in many copyright conventions. The

effect of these was that the contracting parties agreed to admit each other to the benefits that might be accorded to a third state under another treaty that was made by one of them with that state. The effect of such clauses was that a copyright convention between countries A and B might be abrogated, in whole or in part, by the terms of another convention made by either country A or B with country C if this agreement contained additional measures for the protection of copyright. While these clauses did not mean any loss of protection for authors, they obviously made it difficult for an author from country A to know, at any one time, what level of protection he was entitled to in country B, and vice versa.

It will be clear that this network of bilateral agreements meant that there was little uniformity in the protection that an author might expect to receive in countries other than his own. As far as Europe was concerned, the threat posed by international piracy earlier in the century had largely disappeared by 1886, but quite a number of European states still remained reluctant to enter bilateral agreements on copyright. These included the Scandinavian countries, the Netherlands, Greece, the newly independent Balkan states, and, most importantly, the Russian and Austro-Hungarian empires. Outside Europe, much of the world's surface was then controlled by one of the chief European colonial powers. Of those states which were independent, very few had entered any international copyright agreements, and many, in fact, had no internal copyright laws. The most important of these countries was the United States, which throughout the nineteenth century continued to be a major center for pirated works and resisted efforts by other countries, in particular the United Kingdom, to draw it into bilateral agreements. Several such attempts were made, but the vested interests of publishers and printers, on the one hand, and the voracious appetite for cheap books from the rapidly growing American population, on the other, doomed them to failure.

In light of the above, it was not surprising that moves for a more widely based and uniform kind of international copyright protection began in the middle of the nineteenth century. Several schools of thought can be seen at work here. The first favored a universal codification of copyright law under which literary and artistic works would receive equal protection in every country. This was, of course, an idealist conception, which was based firmly on the natural law view of authors' rights according to which these rights should be protected universally without artificial constraints of time, nationality or territoriality. The precise mechanisms by which this state of affairs was to be brought about was never entirely clear, but presumably it would require some kind of international arrangement under which each nation would agree to adopt a common set of provisions guaranteeing protection to authors. In contrast to this was a more pragmatic approach that recognized the need for more uniform international protection of authors' rights, but advocated more limited means for achieving this, mainly through the replacement of the numerous existing bilateral agreements with a single multilateral instrument. At the start, it was the first of these views that predominated. . . .

In 1878, a major international literary congress was held in Paris at the time of the Universal Exhibition in that city. This was organized by the French Société des gens de lettres, and drew together some of the most distinguished authors, lawyers and public figures of the day from three continents. Presided over

by no less a personage than Victor Hugo, the congress concerned itself with fundamental questions of principle concerning the protection of authors. After lengthy debates, a number of resolutions acknowledging the natural and perpetual rights of authors were passed, and a call was addressed to the French government to summon an international conference to formulate a "uniform convention for the regulation of the use of literary property." . . . . [A] more practical development flowing from the 1878 literary congress was its decision to establish the *International Literary Association*. This was to be open to literary societies and to writers of all nations, and had the following objects:

> 1. The protection of the principles of literary property. 2. The organization of regular relations between the literary societies and writers of all nations. 3. The initiation of all enterprises possessing an international literary character.

The first president of the Association was Victor Hugo, and its initial membership was extremely wide, being drawn from nearly twenty countries. Since this time, it has played a significant and catalytic role in the majority of international copyright developments. Although it has always had a strong French orientation, its annual congresses have been held in many different cities, beginning with London in 1879. Five years after this, its membership was expanded to include artists, and its name was changed to its present title, the International Literary and Artistic Association (usually known as "ALAI" which is the abbreviation of its French title, "l'Association littéraire et artistique internationale"). To ALAI belongs the credit for being the initiator of the meetings and negotiations that led to the formation of the Berne Union. From the very start of its existence, it concerned itself with the legal questions relating to the international protection of authors. Strong universalist views were expressed at several of its early congresses, but at its congress in Rome in 1882 a more practical proposal for a limited multilateral convention was adopted. . . . [T]he motion charged the office of ALAI with the task of undertaking:

> the necessary measures for initiating, in the press of all countries, as extensive and profound discussion as possible on the question of the formation of a Union of literary property, and for arranging at a date to be subsequently fixed, a conference composed of the organs and representatives of interested groups, to meet to discuss and settle a scheme for the creation of a Union of literary property.

The meeting place chosen for the conference was Berne, in neutral Switzerland. . .

After three days of intensive discussions, the ALAI conference produced a compact convention of 10 articles. Its basic aim was stated to be the "constitution of a general Union for the protection of the rights of authors in their literary works and manuscripts." The fundamental principle of protection was national treatment, which was accorded on the criterion of place of publication or performance of the work rather than the nationality of the author claiming protection. This was subject to the condition that authors claiming protection had complied with the

formalities required by the law of the country where such publication or performance had taken place. Protection was also extended to manuscripts and unpublished works . .

As for the rights protected under the Convention, these essentially remained a matter for national treatment. This was a long way removed from the universal codification of copyright principles which had been advocated by the earlier literary and artistic congresses. Nevertheless, it was clear that the ALAI draft was seen as a "progressive" text, which should be revised and augmented with time and the addition of new member states. . .

[A] significant provision reserved to states of the proposed Union the right to enter separately between themselves particular arrangements for the protection of literary and artistic works, as long as these arrangements did not contravene the dispositions of the Convention. A similar provision had been included in the recently concluded Paris Convention on Industrial Property, and was an implicit acknowledgement that the draft convention was very far from representing a universal codification of the law of copyright. It was therefore clear that the convention only established a minimum level of protection which member states would be free to augment through other bilateral arrangements. Finally, provision was made for the establishment of an international office of the proposed Union which was to act as a kind of clearing house for the information relating to the copyright laws of member states.

The ALAI draft was a relatively limited document, by comparison with some of the bilateral conventions then in force. . . . Nevertheless, it is usually easier to include more detailed provisions in an agreement between two parties, and the ALAI draft was to form the basis of the final convention of 1886.

Events unfolded rapidly after the conclusion of the ALAI conference of 1883. The Swiss government now undertook formally the task of convening a diplomatic conference to settle the terms of a final agreement. . . .

The 1884 Conference was a very small-scale affair: perhaps not more than twenty people meeting together in the same room. Nevertheless the document they produced went further than could reasonably have been predicted at the outset, in view of the number of nations represented and their different backgrounds and interests. . . .

As for the so-called "principles recommended for an ulterior unification," these spoke in general terms of the difficulty at this point of time in achieving an international codification of copyright law, although it was boldly declared that this was in "the nature of things and would be effected sooner or later." . . . .

Although there was predictable disappointment among authors' and artists' societies that the 1884 draft convention had not gone further along the path to a universal codification, more progress had clearly been made than many, including the Swiss government, had thought possible at the commencement of the 1884 Conference. On the other hand, this had still only been a preliminary meeting, to explore the common ground between nations, and another conference would be necessary to settle the final terms of the new convention. . . .

The new conference met in Berne in September 1885 with 26 delegates from 16 countries: Germany, Argentina, Belgium, Spain, France, the United Kingdom, Haiti, Honduras, Italy, Paraguay, the Netherlands, Norway and Sweden, Switzerland and Tunisia. Notable additions were, of course, Italy, Spain and the

United States. The last-mentioned country, however, made it clear that it was attending only in the capacity of an observer and, that favorable as it was to the idea of the proposed Union in principle, there were strong domestic reasons why accession would prove very difficult, at least at this time. . . .

. . . . [T]he overall result of the conference was that the 1884 draft was not significantly extended, and in some respects was actually cut back. The choice before the conference was summed up in the opening paragraphs of the report of the general commission: whether to have a convention embodying a considerable degree of uniformity from which countries not so advanced in copyright would of necessity be excluded, or to have a less rigorous convention to which as many countries as possible would be able to adhere. The 1885 Conference chose the second of these approaches, although it must be noted that a significant minority of delegations, headed by France, preferred the first. . . .

When the final conference met in Berne on 6 September 1886, 12 countries were represented: Germany, Belgium, Spain, the United States, France, the United Kingdom, Haiti, Italy, Japan, Liberia, Switzerland and Tunisia. Of these, only Japan and the United States were present as observers: the remainder all signed the final instrument. Japan, in fact, was to join only 12 years later, becoming the first Asian country to do so. As for the United States, . . . their delegate, Boyd Winchester, held out the promise of accession, if the circumstances should become appropriate . . .

Of the 10 countries that signed the new Convention in Berne in September 1886, all but one (Liberia) ratified it, with the result that it came into force on 5 December 1887. Of the many other countries that had attended one or both of the two drafting conferences, several came close to signing, but were prevented from doing so because of the state of their internal laws. Examples of such countries were Sweden and Norway, both of which joined the Union within a decade. The Netherlands was a similar case, as was Austria-Hungary. As for the various Latin-American countries which had attended, it seemed that they did not see any advantage in membership of a Union which was so clearly Eurocentric: in any case, these states were shortly to establish their own multilateral convention.

Despite its relatively limited membership, the geographical sweep of the new Union was quite considerable when account is taken of the colonial possessions of its members. Nonetheless, it was far from universal and was also far from the universal codification of copyright that had been desired by the visionaries at Brussels in 1858 and at Paris in 1878. But the fact that such a Union had been achieved within 30 years of the meeting of the Brussels Congress was still a considerable achievement. Since this time, the Berne Convention has increased vastly in its membership and has made significant strides forward in the international protection of authors. . . .

Barbara A. Ringer, THE ROLE OF THE UNITED STATES IN INTERNATIONAL COPYRIGHT - PAST, PRESENT, AND FUTURE
56 Georgetown L.J. 1050, ____-____ (1968)

If, as the familiar aphorism has it, copyright is the metaphysics of the law, then international copyright must be its cosmology. Though their true influence is dimly understood at best, a nation's copyright laws lie at the roots of its culture

and intellectual climate. Copyright provides the inducement for creation and dissemination of the works that shape our society and, in an imperfect and almost accidental way, represents one of the foundations upon which freedom of expression rests. A country without personal liberty does not need a copyright law; where authorship and the communications media are controlled by the state, copyright becomes superfluous.

Copyrighted works represent intangible property that can cross national boundaries as easily and quickly as the communications techniques allow. Perhaps it is no accident that the emergence of the international copyright concept coincided historically with the development of steamships, locomotives, and telegraphy. The widespread use of foreign works in the education, entertainment, and communications of a country not only has significant economic and political consequences, but it can also bring about radical change in that country's culture and society.

Ideally, international copyright regulation should provide the fulcrum on which exchanges of intellectual materials between countries are carefully balanced. The existing multilateral copyright arrangements, however, have proved increasingly incapable of coping with the two main challenges of our half-century, the communications explosion and the demands of the developing nations. International copyright is facing a crisis, and the directions it takes will influence, if not determine the future intellectual climate and cultural achievements of the entire world.

Until the Second World War the United States had little reason to take pride in its international copyright relations; in fact, it had a great deal to be ashamed of. With few exceptions its role in international copyright was marked by intellectual shortsightedness, political isolationism, and narrow economic self-interest. The leadership of the United States in developing and implementing the Universal Copyright Convention[1] (U.C.C.) in the 1950's represented a sharp and admirable change in direction; but the U.C.C., successful in achieving its limited goals, was never contemplated as more than a temporary and partial solution to a fundamental world problem. The role of the United States in seeking a more permanent and effective solution to the crisis in international copyright is something policymakers both in and out of government must consider carefully and without delay.

HISTORICAL BACKGROUND

The Origins of International Copyright

Copyright as a legal concept originated in the form of direct sovereign grants of monopolies during the Renaissance as a response to the needs created by the invention of movable type. During the Age of Reason, copyright in the form of national statutory protection developed as part of the growth of organized publishing industries. Similarly, international copyright appears to have been a response to the Industrial Revolution; the expanding technology in communications necessitated reciprocal protection of works between countries.

At first, international copyright protection was the exception rather than the rule.[2] National copyright laws usually denied protection to works originating

in other countries, and such exceptions as existed were derived from bilateral treaties negotiated between particular countries on the basis of strict reciprocity. Domestic printers and publishers were unwilling to give up their ready markets for unauthorized reprints but the local "piratical" copies were cheap in quality as well as price. Foreign authors had ample reason to complain of the mutilation of their works and the loss of royalties in other countries. National authors "found that their interests were prejudiced by the abundant publication and sale of unauthorized foreign works at cheap prices."[3]

European attitudes toward this situation first began to change around the middle of the 19th century. In 1852 France extended copyright protection to all works, foreign and domestic alike,[4] and while this generous gesture did not set a pattern, it accelerated the movements toward a multilateral copyright system. The Association Litteraire et Artistique Internationale (A.L.A.I.) was formed in Paris and took the lead in seeking ways to establish an international union of countries pledged to the protection of authors' rights.

DEVELOPMENT OF THE BERNE CONVENTION

A conference held under A.L.A.I. auspices in Berne in 1883 marked the end of the discussion phase and the beginning of actual work on what became the Berne Convention of 1886. The goals of the conference were: "(1) The study of the legislative enactments affecting literary property in all civilized countries; (2) the study of important points of these enactments with a view to unification and the foundation of a union for the protection of literary property; (3) the drawing up of certain articles, clear and concise, setting forth the principles that are most likely to be accepted by the various powers and which should constitute the text of a universal convention."[5]

. . . . The original Berne Convention of September 9, 1886, was a modest beginning; nevertheless, it was the first truly multilateral copyright treaty in history, and it established some important basic principles. Rather than reciprocity ("I'll protect your works, but only to the extent you protect my works"), the Berne Convention adopted the principle of national treatment ("I'll protect your works to the same extent I protect my own works, if you promise to do the same"). The convention set up a "Union for the protection of authors over their literary and artistic works" consisting of the contracting states,[6] and established a requirement that among Union members the right of translation had to be protected for a minimum of ten years.[art. V]

The original Berne Convention provided that rights enjoyed under it "shall be subject to the accomplishment of the conditions and formalities prescribed by law in the country of origin of the work, and must not exceed in the other countries the term of protection granted in the said country of origin."[art. II] In the successive revisions of the Convention,[7] the minimum requirements governing protection have been substantially expanded. A Berne Union member accepting the Brussels text of 1948, which is the latest revision now in effect, must, with some exceptions, accord protection to the works of other member countries without requiring compliance with any formalities, during the life of the author and fifty years after his death.[art. 7(1)] The Convention provides specific minimum requirements with respect to the protection of certain exclusive rights,[8]

most notably the so-called "moral rights" of the author. Any country that now wants to join the Berne Union must obligate itself to grant a very high level of copyright protection. . . .

INTERNATIONAL COPYRIGHT IN THE UNITED STATES BEFORE WORLD WAR II

For a century after enactment of the first United States copyright statute in 1790, only published works by citizens and residents of the United States could secure statutory copyright protection. For a century, the United States was exceptionally parochial in copyright matters, not only denying any protection to the published works of nonresident foreign authors, but actually appearing to encourage piracy.[9] Common law protection for unpublished works regardless of the nationality of their authors was cold comfort at a time when publication was the only profitable way to disseminate a work. "Under such circumstances, other nations were understandably reluctant to protect American works."[10]

Literary piracy, particularly of British works, became common in the 19th century, and efforts began in the United States in the 1830's to secure an "international copyright law." In 1837 Henry Clay, as chairman of the Senate Select Committee, submitted a report strongly recommending enactment of international copyright legislation. "In principle," he said, "the committee perceives no objection to considering the republic of letters as one great community, and adopting a system of protection for literary property which should be common to all parts of it." The Clay bill was reintroduced several times between 1837 and 1842, but never reached a vote.

There followed more than a half-century of agitation for international copyright protection in the United States. Efforts to conclude a bilateral copyright treaty with Great Britain failed, and legislation to extend U.S. copyright protection to foreign authors attracted strong opposition, principally by American printing and publishing interests who believed that their livelihood depended upon cheap reprints of English books. They demanded that the extension of U.S. copyright to foreign works be conditioned on compliance with a requirement of manufacture in this country.[11]

The legislative phase of the international copyright movement in the United States began shortly after the Civil War and finally achieved success in the International Copyright Act of March 3, 1891. During much of this same period the Berne Convention of 1886 was under gestation, and its development was well known to those interested in international copyright in. the United States. Yet U.S. government representatives refrained from participating directly in the development of the Convention, under circumstances that leave many questions unanswered.

The prevailing official attitude was summarized in a letter sent by Secretary of State Bayard on June 29, 1886, in response to a Swiss note inviting U.S. participation in the final diplomatic conference. Secretary Bayard stated that the question of international copyright pending before Congress had not advanced far enough in the legislative channel to enable the Executive to act with the assurance of congressional approval, and that the pendency of measures in Congress made it impracticable for the United States to appoint a plenipotentiary

to attend the conference at Berne for the purpose of signing the proposed convention. The American government's attitude toward the project was "merely one of expectancy and reserve," favoring the plan in principle but without determinate views as to the shape it should assume. It was "unprepared to suggest modifications which might conform the convention to the legislation which Congress may hereafter deem appropriate." Secretary Bayard specifically held out the possibility of future accession to the convention "should it become expedient and practicable to do so," thus echoing President Cleveland's message to Congress on December 8, 1885. This possibility was also reflected in the language of the International Copyright Act of 1891:

> That this act shall apply to a citizen or subject of a foreign state or nation when such foreign state or nation permits to citizens of the United States of America the benefit of copyright on substantially the same basis as its own citizens; or when such foreign state or nation is a party to an international agreement which provides for reciprocity in the granting of copyright, by the terms of which agreement the United States may, at its pleasure, become a party to such agreement.

The compromise that made the Act of 1891 possible was the introduction of a requirement of domestic manufacture for "a book, phonograph, chromo, or lithograph." Under section 4956 of the Act, copyright could be secured only by making registration before publication and by depositing two copies of the work on or before the date of publication anywhere. Moreover, in the case of books and certain graphic works, the two copies had to be manufactured in the United States.

The requirements of the 1891 "manufacturing clause" were so rigid that they made the extension of copyright protection to foreigners illusory. Acts were passed in 1904 and 1905 in an effort to liberalize the clause by giving foreigners extra time to comply with the manufacturing requirement, and finally, in 1906, Congress undertook work on a general revision of the U.S. copyright laws. This revision effort was at its peak, when, on October 14, 1908, a major conference for revision of the Berne Convention was held in Berlin. The United States was invited to attend with "full freedom of action," but the delegate, Thorvald Solberg, the Register of Copyrights, was sent as an observer only. Mr. Solberg explained to the Conference that the United States found it impracticable to send a delegate authorized to commit it to actual adhesion to the Berne Convention since some of the questions to be discussed there were pending before the Congress and premature action at the Convention might embarrass the legislative branch of the Government.[1]

The original Berne Convention of 1886 had allowed member countries to impose certain formalities, such as notice, registration, and domestic manufacture, as conditions of copyright. This was changed by article 4 of the Berlin revision of 1908, which provided without qualification that "the enjoyment and exercise of these rights shall not be subject to the performance of any formality." This made it impossible for the United States to join the Berne Union without substantial changes in its domestic law.

In 1909, the year after the Berlin revision abolished formalities in

international copyright, Congress passed a complete revision of the United States copyright law. The Act of March 3, 1909 . . . retained rather rigid notice formalities and, while further liberalizing the manufacturing provisions,[2] retained the basic requirement of domestic manufacture as a condition of copyright in English-language books and periodicals. American adherence to the Berne Convention thus became impossible unless Congress could be persuaded to change the law again but this obviously was unfeasible in the immediate future. Active U.S. participation in the development and revision of the Berne Convention in its nascent stages might not have avoided this result, but it might have prevented the paths from diverging so sharply.

The 1909 Act continued the provision of the 1891 statute under which the President is empowered to proclaim the existence of bilateral copyright relations between the United States and particular foreign countries. This system has proved cumbersome and ineffective in comparison with the simplicity, certainty, and other advantages offered by multilateral arrangements. In fact, efforts to achieve adherence to the Berne Convention began less than 15 years after the enactment of the 1909 statute; following the First World War, the increasing use of American works in other countries brought with it a demand that the United States adhere to the Berne Convention. Beginning in 1922, a series of bills for this purpose was introduced in Congress.

The history during the 1920's and 1930's of the combined legislation programs to obtain general revision of the copyright law and U.S. adherence to the Berne Convention makes painful reading. One commentator attributed the total failure of both these programs to the effort to link them together, pointing out that "the development of radio and motion picture technology during the 1920's introduced new interest into the orbit of intellectual properties, and made more difficult the task of securing agreement on proposals to effect a general revision of the copyright law." On the other hand, a motion picture attorney felt that the United States never adhered to Berne "primarily because it contains concepts which are foreign to our concepts of copyright, such as copyright without formalities, protection of moral rights, retroactivity and also because of the requirement of our manufacturing clause."[3]

Whatever the reason for the failure of these legislative programs, the United States had become an exporter in the copyright trade, and something had to be done. It did not take American copyright owners long to discover an attractive loophole that has come to be known as the "backdoor to Berne." By the simple device of simultaneous publication of an American work in the United States and in a country which was a Berne Union member, such as Canada, a work became entitled to protection throughout the Berne Union without any corresponding obligations on the United States to protect Berne works. This practice of simultaneous publication became extremely widespread, and provoked resentment that is surprising only in its relative mildness. In 1914 the Berne Union adopted a retaliatory protocol[4] under which member countries could, if they chose, limit the protection of nonmember authors under certain conditions, and there were cases in which the existence of true simultaneous publication was decided on narrow grounds.

In 1928 the Berne Convention was revised at Rome, and the level of protection was again raised. In an effort to induce the United States to join the

Union, however, the Rome Convention permitted nonmembers to adhere to the Berlin text of 1908 until August 1, 1931. Strenuous efforts in Congress to meet this deadline were unsuccessful; although Senate approval of the Rome version was prematurely obtained in 1935, it was immediately withdrawn. Another major effort sponsored by a committee formed under the auspices of an American organization related to the League of Nations resulted in the introduction of a bill in 1940, but it died in committee.

INTER-AMERICAN CONVENTIONS

Efforts to develop multilateral copyright arrangements in the Americas began in the 1880's at about the same time the Berne Convention and the United States International Copyright Act were being formed. These efforts produced a series of Pan-American copyright conventions, but for all practical purposes the United States is a member of only one of them, the Buenos Aires Convention of 1910.[5] It has failed to accept the later revisions adopted at Havana in 1928 and at Washington in 1946, which are more closely analogous to the principles of the Berne Convention.

Under the Buenos Aires Convention a work is protected in a member country if it has been copyrighted in another member country and bears a form of copyright notice. Since no legislation implementing it has ever been enacted, the conditions and extent of protection under this convention remain somewhat unclear in the United States. Furthermore, during the past twenty years there has been an unmistakable trend away from regional conventions and in favor of worldwide copyright arrangements, and the Universal Copyright Convention has superseded the Pan-American conventions in many cases.

THE UNIVERSAL COPYRIGHT CONVENTION

After the Second World War it became even more imperative for the Berne Union and the United States to reach an accommodation. The failure of the United States to offer foreign works the level of copyright protection generally available throughout the Berne Union gave rise to indignation, which was intensified by the practice of American copyright owners' taking full advantage of Berne protection in other countries. The situation grew worse with the emergence of the United States as the leading exporter of copyrighted works in the world. As one commentator has said, "Consideration was given to attracting the Americas into Berne, but member countries refused to tolerate their own retrogression for the simple expediency of attracting the American countries."[6] The postwar situation was urgent, but it seemed clear at that time that the Berne countries would refuse to lower protection sufficiently to attract American adherence and that other efforts by the United States to join the Berne Union would be futile. The approach that was adopted represented a compromise: a new "common denominator" convention that was intended to establish, a minimum level of international copyright relations throughout the world, without weakening or supplanting the Berne Convention. The Universal Copyright Convention, as it came to be called, was sponsored by UNESCO,[7] and one of the leaders in its development was the United States.

Advocates of international copyright protection began once again to lay the groundwork for altering the domestic law in the United States while concomitantly devising universal agreement that would appeal to all countries committed to the promotion of cultural interchange. Furthermore, "vigorous leaders appeared in the United States among the champions of international copyright and organizations of creators, producers, and consumers of literary works became alerted to the[se] questions."[8]

The landmark Universal Copyright Convention was signed at Geneva on September 6, 1952, and, following the required 12 ratifications, took effect on September 16, 1955. The United States was one of the first signatories to ratify it. . . . [A]t least in comparison with the 1948 Brussels revision of the Berne Convention, the Universal Copyright Convention represents a rather low-level copyright arrangement, resembling in many ways the original 1886 Berne text.

The minimum requirements as to exclusive rights are extremely modest, being limited to providing "adequate and effective protection" and translation rights which can be subject to compulsory licensing. The requirements as to minimum duration of protection are also very permissive, and a system of copyright notice is actually sanctioned as a substitute for other formalities. It is therefore understandable that Berne Union members regarded the U.C.C. as a retrogressive step, and insisted on safeguarding the Berne Convention from the danger of being undermined by the defection of Berne members to the U.C.C. [through provisions that prohibit any Berne member from denouncing the Berne Convention and relying on the U.C.C. in its copyright relations with other Berne members].

DEVELOPMENTS, 1952-1967

U.S. RATIFICATION OF THE UNIVERSAL COPYRIGHT CONVENTION

Getting the United States to ratify the Universal Copyright Convention and to enact the statutory revisions necessary to implement it was more of an accomplishment than the development of the U.C.C. itself. That there was opposition goes without saying, but it was neutralized or overcome in a remarkably short time. On August 31, 1954, President Eisenhower signed Public Law 743 which conformed the indigenous copyright law to the Convention, and on November 5, 1954, he signed the instrument of ratification of the U.C.C. itself.

Since the Universal Copyright Convention was to a considerable extent tailored to meet the requirements of existing United States law, the changes necessary to implement it were, for the most part, technical. The most important alteration involved a complete waiver of all formalities as to deposit, registration, manufacture, and importation for foreign U.C.C. works, as long as the copies of the work bore the notice of copyright prescribed by the Convention. As a practical matter, this has removed the manufacturing requirement for the majority of English language works of foreign authorship and has induced a much greater use of copyright notices on foreign works.

CURRENT STATUS OF THE U.C.C.

In general, the Universal Copyright Convention has been a genuine

success. It has been ratified or acceded to by 55 countries, nearly as many as belong to the Berne Union. It has vastly simplified the international copyright relations of the United States with other countries and of other countries with the United States, and it has brought some newly independent or developing countries into the international copyright community on terms that they found acceptable.

. . .

CONCLUSION

The irony of the present American position in international copyright needs no elaboration. After a century as a virtual outlaw, a half century as an outsider, and 15 years as a stranger at the feast, the United States suddenly finds itself cast as a leading champion of literary property. . . [A]s the world's largest exporter of literary properties, we have an immediate stake in the future of international copyright. We can no longer afford to stand apart and content ourselves with sidelong glances. . . .

BERNE CONVENTION IMPLEMENTATION ACT
H.R. Rep. No. 609, 100th Cong., 11-20 (1988)

A. THE BERNE CONVENTION IN INTERNATIONAL COPYRIGHT

. . .

The Berne Convention is the oldest and most respected international copyright treaty.

In 1886, the Convention was concluded at Berne, Switzerland and the Berne Union came into being. Since then, the Convention has been successively completed and revised seven times: at Paris (1896), Berlin (1908), Berne (1914), Rome (1928), Brussels (1948), Stockholm (1967), and most recently, at Paris (1971). From an initial membership of eight [sic] states, the Union [in1988] boast[ed] seventy-seven members, adhering to one or more of the principal Acts of the Union.

The Berne Union includes nations from all regions of the globe, at all levels of development. In the Western Hemisphere, Canada and 10 Latin American Republics adhere to Berne; in Europe, virtually every major state in Western and Eastern Europe adheres. Twenty-four states of Africa and 10 from Asia and the Pacific adhere. Membership includes highly industrialized nations such as Japan, Canada and France; industrializing countries such as India, Brazil and Mexico and developing countries such as Benin and Sri Lanka.

Major states not members of the Berne Union include the Soviet Union, China and the United States of America.

1. *History of the Convention*

. . .

The original Convention was intended to promote five objectives: (1) the development of copyright laws in favor of authors in all civilized countries; (2) the elimination over time of basing rights upon reciprocity; (3) the end of

discrimination in rights between domestic and foreign authors in all countries; (4) the abolition of formalities for the recognition and protection of copyright in foreign works; and, (5) ultimately, the promotion of uniform international legislation for the protection of literary and artistic works.

The first Berne Convention was a simple document in which two cardinal principles were established, both of continuing vitality today:

a. The Union: the states adhering to the Convention organized themselves into a Union for the protection of the rights of authors in their literary and artistic works. In forming the Union, the original members contemplated an essentially political as well as legal undertaking: that adherents to the Convention would function as a cooperative unit which would continue in existence regardless of future accessions or withdrawals from the Convention itself.

b. The Rule of National Treatment: one of the cornerstones of international copyright is the rule, first recognized for copyright in the Berne Convention, that authors should enjoy in other countries the same protection for their works as those countries accord their own authors.

During the century of its existence, the Convention has been revised five times to meet changed conditions and technological development affecting authors' rights. Successive texts have generally improved and extended rights accorded authors and copyright proprietors; and, in 1967, the Berne Union confronted the special challenges to copyright policy posed by the emergence of numerous developing countries on the world scene.

2. Successive Revisions of the Berne Convention

a. 1908 Berlin Act. The principal achievement of the Berlin Revision Conference was the prohibition of formalities as a condition of the enjoyment and exercise of rights under the Convention. The minimum duration of protection was set at the life of the author and fifty years post mortem, but made subject to exceptions for each country so as to make it less than a mandatory rule. The Convention further expanded the minimum subject matter of copyright under the Convention, including photographs. Moreover, the Berlin Revision recognized the exclusive rights of composers of musical works to authorize the adaptation of these works and gave explicit protection to the authors of cinematographic works.

b. 1928 Rome Act. This revision was the first to recognize expressly the "moral rights" of authors: the right to claim authorship of a work and the right to object to modifications of the work which prejudiced the honor or reputation of the author. The Rome revision specifically recognized the right to authorize broadcasting of works, leaving details to be elaborated by national legislation.

c. 1948 Brussels Act. This revision established the term of protection of life of the author and fifty years *post mortem* as mandatory. It added improvements in copyright protection including recognition of the right of public recitation; rules governing mutual recognition of optional "resale royalty" laws (so called "droit de suite"); extension of the broadcasting article to secondary transmissions, including by wire; and, express recognition of cinematographic works and works produced by processes analogous to cinematography as distinct subjects of copyright protection.

d. 1967 Stockholm Act. For the first time, the implicit right of

reproduction was expressly established in the Convention and special rules governing exceptions to that right were also included. Significant new rules relating to reconciling different national rules of authorship and ownership of motion pictures, defining the "nationality" of films for Convention purposes, were added at this revision. Protection was extended to include authors having habitual residence in a Union country, regardless of their citizenship. Finally, this revision established a "Protocol Regarding Developing Countries," which would have allowed developing countries broadly to limit rights of translation and reproduction. The 1967 Stockholm Act has not and will not come into force. It has effectively been superseded by the 1971 Paris Act.

e. 1971 Paris Act. The 1971 Paris Act of Berne -- the only Act now open to accession -- is essentially the 1967 Stockholm Act with significant revisions made to the Protocol Regarding Developing Countries. The thrust of these revisions will be discussed in the context of relations with developing countries.

. . .

5. *The Berne Convention and Developing Countries*

The Berne Convention has played a constructive role in encouraging national creativity in developing countries through the enactment of national legislation based on the provisions of the Convention itself. Today, there is an augmented awareness of the importance of copyright in the developing world.

In 1900, of the twelve states members of the Berne Union only one (Tunisia) would today be considered a developing country. Indeed, with the exception of Japan, the Convention was totally European in membership.

On the eve of the Diplomatic Conference to draft the Universal Copyright Convention in 1952, the number of developing countries party to a text of the Berne Convention had reached eleven of a total of forty-two states. Today, developing countries constitute a slight majority of the 78 members of the Berne Union, the bulk having joined in the 1960's and early 1970's. Nine of the states joining in this period declared continuing adherence to the Convention following achievement of independence.

No understanding of the role of the Berne Convention in relation to developing countries is possible without coming to grips with the Stockholm revision conference, the challenge to the integrity of the global copyright system posed by the Protocol Regarding Developing Countries adopted at that Conference and the complex diplomacy which, in 1971 at Paris, resolved the Protocol crisis.

By the mid 1960's the growing number of developing countries in the United Nations system and in the Berne and Universal Copyright Conventions generated political pressures for the inclusion in the Berne Convention of special provisions designed to facilitate access to protected works by developing countries and, in other ways, to permit reservations on obligations deemed too onerous by developing countries. Through a series of preparatory meetings, a program for consideration of such special provisions was developed for the Stockholm Conference.

In a highly charged politicized atmosphere, the Stockholm Conference Protocol Regarding Developing Countries was adopted in a form which would have permitted deep cuts in the levels of copyright protection that developing

countries would accord to protected works. The minimum term of protection could be reduced to life plus 25 years post mortem; exclusive rights with respect to broadcasting and retransmission of broadcasts could have been cut back to the level provided for in the 1928 Rome text, at least for non-commercial broadcast undertakings; translation and reproduction compulsory licensing systems would have been permitted; and, any use of a work (including performance, broadcasting and translation) for "teaching, study and research" would be allowed subject only to compensation at a level accorded national authors.

The struggle for control of the future of the Berne Convention was only one front in a conflict which also embroiled the Universal Copyright Convention. In 1966, efforts by developing countries were initiated in UNESCO to seek repeal of the "safeguard" provisions of the UCC. This effort was put on hold pending the outcome of the Stockholm revision conference.

The crisis which emerged out of Stockholm, though resting on technical matters and involving many different aspects of copyright, was essentially simple: no developed country was prepared to ratify the Stockholm Act because of its integral Protocol. Since a state cannot be bound by the terms of a treaty to which it has not adhered, the Stockholm Act could never serve as a basis to redefine the legal rights and privileges of the parties to this copyright dispute. The response of the developing countries was to threaten a revision conference for the Universal Copyright Convention, suspension of its safeguard clause, followed by wholesale withdrawals from the Berne Convention. The unraveling of the entire fabric of international copyright seemed possible.

In 1970, largely under the leadership of the United States through the Universal Copyright Convention, a compromise program was developed under which both Berne and the UCC would be revised to include less drastic concessions to developing countries, centered largely upon limited compulsory licensing options for translation and reprint rights in support of educational and developmental objectives. This program succeeded and in 1971 Berne and the UCC were jointly revised at Paris.

Since that time, relative stability in the Berne Convention has prevailed. Only two members of the Berne Convention and four members of the UCC have declared their intention, in accordance with the requirements of the two Conventions, to avail themselves of the compulsory licensing privileges of the Conventions. Indeed, as yet, no compulsory licenses have been issued in any of those countries.

The entire experience of the Stockholm Protocol had a material impact on the copyright related activities of the World Intellectual Property Organization. The establishment of a Permanent Committee on Development Cooperation in the Field of Copyright and Neighboring Rights to plan and coordinate the growing development assistance programs of the W.I.P.O. and the creation of the Joint International Copyright Information Service to assist users in developing countries in obtaining licenses from rightsholders in developed countries represent positive long-term institutional responses.

B. THE BERNE CONVENTION AND INTERNATIONAL TRADE

Recently, protection of intellectual property, including copyrights, has

become an international trade issue. Improved technology and communications greatly facilitate the global dissemination of ideas, cultural views, and creative activity. Technological changes also facilitate the unauthorized copying of the creative work-product.

The United States, as a leader in the creation and global exploitation of copyrighted works, has a great interest in a strong and viable international copyright system. Under the U.S. Constitution, the primary objective of copyright law is not to reward the author, but rather to secure for the public the benefits derived from the authors' labors. By giving authors an incentive to create, the public benefits in two ways: when the original expression is created and second, when the limited term of protection expires and the creation is added to the public domain.

If framed properly, copyright protection fosters creative activity and innovation and encourages investment in commercialization of new ideas and technology. Trade in goods have expanded rapidly in the recent past. Domestic industries relying upon copyright protection to stimulate creative efforts represent a broad range of interests including all types of publishing, motion pictures, music and sound recordings and computer software. Goods and services produced by these industries consistency results in a trade surplus for the United States. A positive trade balance also sustains American jobs thereby stimulating the domestic economy.

Recognizing the benefits of preserving rights of authors and providing incentives for future activities, our trade negotiators have engaged in a series of bilateral and multilateral efforts to persuade foreign countries to improve their protection of copyrightable works. The American negotiating position has been placed at a disadvantage with regard to improved copyright protection in foreign countries, however, because the United States neither belongs to the Berne Union nor has a copyright law that would allow us to join. Adherence of the United States to the Berne Convention will strongly encourage other countries to adopt and enforce high levels of protection.

In bilateral negotiations, foreign countries often point to the perceived deficiencies in U.S. protection, creating an excuse to avoid making improvements to their own laws. By way of illustration, in bilateral negotiations with Singapore and Korea, the American negotiators were repeatedly asked the difficult question of why the United States was pushing so hard for strong copyright protection in these countries while we did not adhere to the Berne Convention.

The absence of the United States in the Berne Union is also a significant consideration when our trading partners decide whether to adhere to the Berne Convention or to the Universal Copyright Convention, which obligates signatories to provide less protection to copyrighted works. The Republic of Korea, for example, recently joined the UCC rather than Berne as part of that country's revision of its copyright laws undertaken in connection with the unfair trade investigation of Korea's protection of intellectual property. It is difficult for U.S. negotiators to argue that countries such as Korea should adhere to the Berne Convention when the United States has not taken the step itself.

Lack of U.S. membership in the Berne Convention makes it necessary to negotiate a series of bilateral copyright agreements with countries that are members of the Berne Union. Current negotiations with Thailand, a member of

Berne, to confirm copyright protection of U.S. works provide an excellent example of the strain placed on U.S. relations resulting from non-adherence to Berne.

Following adherence to the Berne Convention, the United States will be able to establish copyright relations with twenty-four countries that are members of Berne. Two of these countries—Egypt and Turkey—are substantial trading partners. U.S. adherence to Berne will not only ensure protection of U.S. works but will promote trade in copyrighted works.

The United States successfully placed the topic of trade-related aspects of intellectual property on the agenda of the Uruguay Round Negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). The GATT meeting of Trade Ministers in Punte del Este recognized the relationship between trade and the protection and enforcement of intellectual property rights. Implicit in this recognition is the presumption that inadequate and ineffective protection of intellectual property rights can result in trade distortions.

U.S. membership in the Berne Union would contribute to the success of these multilateral negotiations.

First, adherence will manifest a firm and sustained commitment to achieving strong and uniform protection for intellectual property worldwide. Our trading partners will no longer be able to question the U.S. political will to gain that objective. Many participants in the Uruguay Round negotiations on intellectual property view increased participation in existing international conventions as the initial step in the protection of intellectual property rights. U.S. adherence to Berne could provide an incentive for other countries to reexamine their participation in international agreements.

Second, the substance of any multilateral agreement resulting from the Uruguay Round effort will undoubtedly reflect the international consensus embodied in the Berne Convention. U.S. membership in the Berne Union means that our trade negotiators can argue strongly for responsible standards without letting inconsistencies in U.S. copyright law change the focus of discussion as to why the U.S. currently does not—or cannot—belong to Berne. The United States should not be perceived as imposing a double standard on the rest of the world.

There is a potential danger of establishing international legal standards through trade agreements and GATT negotiations which, however desirable to particular private interests, are higher than those of our domestic law. Our trade negotiators obviously do not have the power to legislate. Only Congress can pass new or amend old laws.

The Berne Convention represents an international consensus on copyright protection. The United States should be in a position to take advantage of that consensus, to encourage other countries to join the common ground, and to use it to encourage expansion of legitimate trade. As to the latter, the relationship of Berne adherence to promotion of U.S. trade is clear. American popular culture and information products have become precious export commodities of immense economic value. That value is badly eroded by low international copyright standards. Berne standards are both high, reasonable and widely accepted internationally. Lending our prestige and power to the international credibility of those standards will promote development of acceptable copyright regimes in bilateral and multilateral contexts. Ultimately, a strong and viable international

legal regime will develop to the benefit of the United States, not only to the advantage of proprietary interests but also to the public good.

NOTES AND QUESTIONS

1. In the decade since the United States joined Berne, the membership of the Berne Union has risen from 77 to 160 countries. Today, both Russia and China are also members.

2. This increase has doubtless been due to a combination of U.S. accession to Berne and the conclusion of the TRIPS Agreement, which obligates WTO members to comply with Articles 1-21 of Berne plus its Appendix (subject to a reservation as to Article *6bis* on moral rights). *See* TRIPS art. 9(1). The impact has been to render the U.C.C. nearly irrelevant as a practical matter, since (as discussed below) the Berne obligations exceed those of the U.C.C., and its membership is now considerably greater.

3. Despite the turbulence that led to special treatment for developing countries in Berne and the U.C.C., the compulsory license privileges provided in the Conventions have to this day been little used. What do you think is the explanation?

WORLD INTELLECTUAL PROPERTY ORGANIZATION INTELLECTUAL PROPERTY READING MATERIAL

¶¶ 5.446-449 (2d ed. 1998)

Neighboring rights are primarily an offshoot of technological development. At the national level, it was first the phonogram industry that looked for protection against unauthorized duplication of sound recordings of musical performances. At the international level, it was likewise the development of the phonogram industry that promoted the establishment of special protection for the so-called neighboring rights.

As in the case of some national laws, the first proposals aiming at the protection of producers of phonograms and performers at the international level were also based on copyright protection. The rights involved were discussed by the Berne Union for the Protection of Literary and Artistic Works at its Diplomatic Conference in Rome in 1928, where it was proposed that "when a musical work has been adapted to a mechanical instrument by the contribution of performing artists these latter should also benefit from the protection granted to that adaptation." Corresponding to this approach, a resolution was passed asking governments to consider the possibility of adopting measures to safeguard the interests of performers.

Later on, in 1934, CISAC, the International Confederation of Societies of Authors and Composers, signed an agreement in Stresa with the International Federation of the Gramophone Industry according to which during the forthcoming revision of the Berne Convention (i) the protection of phonograms against unauthorized duplication and (ii) the right of producers of phonograms to equitable remuneration for communication to the public of their phonograms by broadcasting or cinematography should be proposed by means of an annex to be added to the Berne Convention. On the other hand, the International Labour

Organization (ILO) had maintained since 1926 a continuing interest in the protection of performers and the problem was considered at a meeting in Samaden, Switzerland, in 1939. Drafts were prepared in cooperation with the Bureau of the Berne Union but all progress was stopped for several years by the outbreak of World War II.

After the war, different committees of experts prepared drafts of conventions which also included protection of the interests of broadcasting organizations— the so-called Rome Draft (1951), a draft produced under the sponsorship of the International Labour Organization (1957) and the Monaco Draft (1957) prepared by experts convened by the International Bureau of the Berne Union and by UNESCO. Finally, in 1960, a committee of experts convened jointly by WIPO, UNESCO and the International Labour Organization, met at The Hague and drew up the draft convention. This served as a basis for the deliberations in Rome, where a Diplomatic Conference agreed upon the final text of the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, the Rome Convention of October 26, 1961.

2. International Treaty Obligations

a. Copyright

i. The Berne Convention

WORLD INTELLECTUAL PROPERTY ORGANIZATION
INTELLECTUAL PROPERTY READING MATERIAL
¶¶ 5.168-191, 5.199-204 (2d ed. 1998)

. . .

The aim of the Berne Convention, as indicated in its preamble, is "to protect, in as effective and uniform a manner as possible, the rights of authors in their literary and artistic works." Article 1 lays down that the countries to which the Convention applies constitute a Union for the protection of the rights of authors in their literary and artistic works.

Principal Provisions

(i) Basic Principles

The Convention rests on three basic principles. Firstly, there is the principle of "national treatment," according to which works originating in one of the member States are to be given the same protection in each of the member States as these grant to works of their own nationals. Secondly, there is automatic protection, according to which such national treatment is not dependent on any formality; in other words protection is granted automatically and is not subject to the formality of registration, deposit, or the like. Thirdly, there is independence of protection, according to which enjoyment and exercise of the rights granted is independent of the existence of protection in the country of origin of the work.

(ii) Works Protected

Article 2 contains a non-limitative (illustrative and not exhaustive) list of such works, which include any original production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression. Derivative works, that is those based on other pre-existing works, such as translations, adaptations, arrangements of music and other alterations of a literary or artistic work, receive the same protection as original works (Article 2(3)). The protection of some categories of works is optional; thus every State party to the Berne Convention may decide to what extent it wishes to protect official texts of a legislative, administrative and legal nature (Article 2(4)), works of applied art (Article 2(7)), lectures, addresses and other oral works (Article 2bis(2)) and works of folklore (Article 15(4)). Furthermore, Article 2(2) provides for the possibility of making the protection of works or any specified categories thereof subject to their being fixed in some material form. For instance, protection of choreographic works may be dependent on their being fixed in some form.

One of the important provisions is the one that covers works or expressions of what is called "folklore". Without mentioning the word, the Convention provides that any member country may give protection to unpublished works where the identity of the author is unknown, but where there is every ground to presume that the author is a national of that country, by designating, through the national legislation, the competent authority which should represent the author of unknown identity and protect and enforce his rights in the countries party to the Convention. By providing for the bringing of actions by authorities designated by the State, the Berne Convention offers to countries whose folklore is a part of their heritage, a possibility of protecting it.

(iii) Owners of Rights

Article 2(6) lays down that protection under the Convention is to operate for the benefit of the author and his successors in title. For some categories of works, however, such as cinematographic works (Article 14bis), ownership of copyright is a matter for legislation in the country where protection is claimed.

(iv) Persons Protected

Authors of works are protected, in respect of both their unpublished or published works if, according to Article 3, they are nationals or residents of a member country; alternatively, if, not being nationals or residents of a member country, they first publish their works in a member country or simultaneously in a non-member and a member country.

(v) Minimum Standards of Protection

Certain minimum standards of protection have been prescribed relating to the rights of authors and the duration of protection.

(vi) Rights Protected

The exclusive rights granted to authors under the Convention include the right of translation (Article 8), the right of reproduction in any manner or form, which includes any sound or visual recording, (Article 9), the right to perform dramatic, dramatico-musical and musical works (Article 11), the right to broadcasting and communicating to the public by wire, by broadcasting or by loudspeaker or any other analogous instrument of the broadcast of the work (Article 11bis), the right of public recitation (Article 11ter), the right of making adaptations, arrangements or other alterations of a work (Article 12) and the right of making the cinematographic adaptation and reproduction of a work (Article 14). The so-called "droit de suite" provided for in Article 14ter (concerning original works of art and original manuscripts) is optional and applicable only if legislation in the country to which the author belongs so permits.

Independently of the author's economic rights, Article 6bis provides for "moral rights"—that is to say the right of the author to claim authorship of his work and to object to any distortion, mutilation or other modification of, or other derogatory action in relation to, the work which would be prejudicial to his honor or reputation.

(vii) Limitations

As a sort of counterbalance to the minimum standards of protection there are also other provisions in the Berne Convention limiting the strict application of the rules regarding exclusive right. It provides for the possibility of using protected works in particular cases, without having to obtain the authorization of the owner of the copyright and without having to pay any remuneration for such use. Such exceptions, which are commonly referred to as free use of protected works, are included in Articles 9(2) (reproduction in certain special cases), 10 (quotations and use of works by way of illustration for teaching purposes), 10bis (reproduction of newspaper or similar articles and use of works for the purpose of reporting current events), and 11bis(3) (ephemeral recordings).

There are two cases where the Berne Convention provides the possibility of compulsory licenses—in Articles 11bis(2), for the right of broadcasting and communication to the public by wire by rebroadcasting or by loudspeaker or any other analogous instrument of the broadcast of the work, and 13(1) for the right of recording musical works.

In so far as the exclusive right of translation is concerned, the Berne Convention offers a choice, in that a developing country may, when acceding to the Convention, make a reservation under the so-called "ten-year rule" (Article 30(2)(b)). This provides for the possibility of reducing the term of protection in respect of the exclusive right of translation; this right, according to the said rule, ceases to exist if the author has not availed himself of it within 10 years from the date of first publication of the original work, by publishing or causing to be published, in one of the member countries, a translation in the language for which protection is claimed.

(viii) Duration of Protection

The minimum standards of protection provided for in the Berne

Convention also relate to the duration of protection. Article 7 lays down a minimum term of protection, which is the life of the author plus 50 years after his death.

There are, however, exceptions to this basic rule for certain categories of works. For cinematographic works, the term is 50 years after the work has been made available to the public, or, if not made available, then 50 years after the making of such a work. For photographic works and works of applied art, the minimum term of protection is 25 years from the making of the work (Article 7(4)).

A majority of countries in the world have legislated for life plus a 50-year term of protection since it is felt fair and right that the lifetime of the author and the lifetime of his children should be covered; this could also provide the incentive necessary to stimulate creativity, and constitute a fair balance between the interests of the authors and the needs of society.

The term of protection, insofar as moral rights are concerned, extends at least until the expiry of the economic rights.

The Latest (Paris) Act of the Convention

The Berne Convention was developed initially according to the standards and requirements of the industrialized countries in Europe. Particularly in the wake of the Second World War, when the political map of the world changed considerably, the Berne Convention also had to face new problems of development. Various newly independent countries had to consider the question of possible accession to the international system of copyright protection as contained in the Convention. They were free to join or not to join it or, where they were already members by virtue of a past colonial or similar status, to withdraw from the Convention.

While it was almost universally recognized that authors and other creators should be afforded the necessary protection for their intellectual creations, there was also a consciousness that the newly independent developing countries had genuine problems in gaining greater and easier access to works protected by copyright, particularly for their technological and educational needs, from the developed countries. Meanwhile, the advance of technology made more attractive the extension of the geographical scope of the international conventions and multilateral agreements to an increasingly larger number of countries.

Deliberations at the more recent revision conferences were, therefore, directed to adapting the systems of international protection of literary and artistic works to the needs of these newly independent countries. . . .

The Appendix to the Paris (1971) Act of the Berne Convention provides for special faculties open to developing countries concerning translation and reproduction of works of foreign origin. The Appendix augments the Convention's existing exceptions to the author's exclusive rights, including those of reproduction and translation (Articles 2bis, 9(2), 10(2), 10bis) and the ten-year rule (Article 30(2)(b)).

According to this Appendix, countries which are regarded as developing countries in conformity with the established practice of the General Assembly of the United Nations may, under certain conditions, depart from the minimum standards of

protection provided for in the Convention. This exceptional regime concerns two rights, the right of translation and the right of reproduction. Details of such provisions in favor of developing countries appear . . . below.

Developing Countries and the Berne Convention

. . . .

. . .The Appendix provides for the possibility of granting non-exclusive and non-transferable compulsory licenses in respect of (i) translation for the purpose of teaching, scholarship or research, and (ii) reproduction for use in connection with systematic instructional activities, of works protected under the Convention. These licenses may be granted, after the expiry of certain time limits and after compliance with certain procedural steps, by the competent authority of the developing country concerned. They must provide for just compensation in favor of the owner of the right. In other words the payment to be made by the compulsory licensee must be consistent with standards of royalties normally in vogue in respect of licenses freely negotiated between persons in the two countries concerned. Provision has also to be made to ensure a correct translation or an accurate reproduction of the work, as the case may be, and to indicate the name of the author on all copies of such translations or reproductions. Copies of translations and reproductions made and publication under licenses are not, however, allowed to be exported. Since the license is non-exclusive, the copyright owner is entitled to bring out and place on the market his own equivalent copies, upon which the power of the licensee to continue making copies under the license would cease. However, in that event, the compulsory licensee's stock can be exhausted.

Compulsory licenses for translations can be granted for languages generally spoken in the developing country concerned. There is a distinction between languages in general use also in one or more developed countries (English, French and Spanish, for example) and those not in general use there (largely local languages of developing countries). In the case of a language in general use in one or more developed countries, a period of three years, starting on the date of the first publication of the work has to elapse before a license can be applied for, whereas for other languages the period has been reduced to one year. To this has to be added a period of six to nine months, as the case may be, for obtaining licenses according to the formalities provided for in the Convention. It is also important here to point out that the system of translation licenses includes licenses for broadcasting, and this is important when we take into account the part played in today's context by the radio and television for educational purposes. These licenses, however, are not for authorizing the broadcasting of a translated work; they relate only to translations made for broadcasting purposes.

In respect of reproduction, the period after which licenses can be obtained varies according to the nature of the work to be reproduced. Generally it is five years from the first publication. For works connected with the natural and physical sciences and with technology (and this includes mathematical works) the period is three years; while for works of fiction, poetry and drama, the period is seven years.

The possibility that the Appendix provides for the grant of a compulsory

license, if authorization is desired, may favorably influence negotiation and may lead to increased scope for voluntary licensing.

In so far as compulsory licenses for translation are concerned, instead of availing itself of the facility offered by the system mentioned earlier, the Berne Convention offers a choice in that a developing country may, when ratifying or acceding to the Paris Act, make a reservation under the so-called "ten-year rule" (Article 30(ii) (b)), which provides for the possibility of reducing the term of protection as far as the exclusive right of translation is concerned; this right, according to the said rule, ceases to exist if the author has not availed himself of it within ten years from the date of first publication of the original work, by publishing or causing to be published, in one of the countries of the Berne Union, a translation in the language for which protection is claimed. The Appendix to the Paris Act of the Berne Convention thus allows a choice between a compulsory license system and the possibility of limiting the right of translation to ten years as provided for in this Convention. Any developing country may choose between those possibilities but cannot combine them. In other words this "ten-year" system, provides that for ten years from the publication of the work, the author's consent has to be sought before the right to translate is obtained; after this period the right of translation is in the public domain.

ii. The Universal Copyright Convention (UCC)

Barbara A. Ringer, THE ROLE OF THE UNITED STATES IN INTERNATIONAL COPYRIGHT - PAST, PRESENT, AND FUTURE
56 Georgetown L.J. 1050, ___-____ (1968)

The most significant provisions of the [U.C.C.] can be summarized as follows:

1. Adequate and effective protection. Under article 1, the contracting states are obliged to "provide for the adequate and effective protection of the rights of authors and other copyright proprietors . . . ."
2. National treatment. Article II provides that the "published works of nationals of any Contracting State and works first published in the State shall enjoy in each other Contracting State the same protections that other State accords to works of its nationals first published in its own territory." There is a similar provision for unpublished works.
3. Formalities. Article III, which represents the great compromise of the U.C.C., provides that the formal requirements, such as notice, registration, and manufacture, of a contracting state's copyright law are satisfied with respect to foreign U.C.C. works "if from the time of first publication all of the copies of the work ... bear the symbol © accompanied by the name of the copyright proprietor and the year of first publication placed in such manner and location as to give reasonable notice of claim of copyright."
4. Duration of protection. Another major compromise is embodied in article IV of the U.C.C. The minimum term, subject to various detailed qualifications and exception, is to be either 25 years from the death of the author or from the date of first publication.

5. Translation rights. The U.C.C. in article V, requires contracting states to give exclusive translation rights to foreign U.C.C. authors for at least seven years; thereafter a rather cumbersome compulsory licensing system can be established.

6. Nonretroactivity. Under article VII a contracting state is not obliged to protect works that are permanently in its public domain on the date the Convention becomes effective in that state.

7. Berne safeguard clause. An enormously important provision of the U.C.C. is found in article XVII and the "Appendix Declaration" attached to it. These provide, in effect, that no Berne country can denounce the Berne Convention and rely on the U.C.C. in its copyright relations with Berne Union members.

NOTES AND QUESTIONS

1. The U.C.C. is jointly administered by WIPO and UNESCO.

2. What are the major differences between the substantive provisions of Berne and those of the U.C.C.? To what can they be attributed?

b. Rights of Performers, Record Producers and Broadcasters

i. The Rome Convention

WORLD INTELLECTUAL PROPERTY ORGANIZATION
INTELLECTUAL PROPERTY READING MATERIAL
¶¶ 5.450-481 (2d ed. 1998)

Relation Between the Protection of Neighboring Rights and Copyright

Considering that the use of literary and artistic works was usually implied in the work of performers, recorders and broadcasters, the Diplomatic Conference at Rome established a link with copyright protection. The first article of the Rome Convention provides that the protection granted under the Convention shall leave intact and shall in no way affect the protection of copyright in literary and artistic works. Under the text of Article 1 it is clear that whenever, by virtue of the copyright law, the authorization of the author is necessary for the use of his work, the need for this authorization is not affected by the Rome Convention.

The majority of the Conference at Rome decided to go even further. They considered the possibility that the performers, producers of phonograms and broadcasting organizations of a country would enjoy international protection even when the literary and artistic works they used might be denied protection in that country, because it was not a party to at least one of the major international copyright conventions. The Rome Convention therefore provides that in order to become a party to the Convention a State must not only be a member of the United Nations, but also a member of the Berne Union or a party to the Universal Copyright Convention (Article 24(2)). Accordingly, a Contracting State shall cease to be a party to the Rome Convention as from that time when it is not party to either the Berne or the Universal Copyright Convention (Article 28(4)). Because of this link with the copyright conventions, the Rome Convention is

sometimes referred to as a "closed" convention from the point of view of the circle of States which may adhere to it.

Principal Provisions

(i) National Treatment

As in the Berne Convention, the protection accorded by the Rome Convention consists basically of the national treatment that a State grants under its domestic law to domestic performances, phonograms and broadcasts (Article 2(1)). National treatment is, however, subject to the minimum of protection specifically guaranteed by the Convention, and also to the limitations specifically provided for in the Convention (Article 2(2)). This means that, apart from the rights guaranteed by the Convention itself as constituting that minimum of protection, and subject to specific exceptions or reservations allowed for by the Convention, performers, producers of phonograms and broadcasting organizations to which the Convention applies, enjoy in Contracting States the same rights as those countries grant to their nationals.

(ii) Eligibility for Protection

One of the most important questions to be answered unequivocally by each international convention is to whom and in what cases does it apply? The Rome Convention provides for its application by determining criteria of eligibility for national treatment.

National treatment should be granted to performers, if the performance takes place in another Contracting State (irrespective of the country to which the performer belongs) or if it is incorporated in a phonogram protected under the Convention (irrespective of the country to which the performer belongs or where the performance actually took place) or if it is transmitted "live" (not from a phonogram) in a broadcast protected by the Convention (irrespective again of the country to which the performer belongs) (Article 4). These alternative criteria of eligibility for protection allow for the application of the Rome Convention to the widest possible circle of performances.

National treatment should be granted to producers of phonograms if the producer is a national of another Contracting State (criterion of nationality) or the first fixation was made in another Contracting State (criterion of fixation) or the phonogram was first or simultaneously published in another Contracting State (criterion of publication) (Article 5).

The Convention allows reservations in respect of these alternative criteria. By means of a notification deposited with the Secretary-General of the United Nations, any Contracting State may at any time declare that it will not apply the criterion of publication or, alternatively, the criterion of fixation. Any State which, on the day the Convention was signed at Rome, granted protection to producers of phonograms solely on the basis of the criterion of fixation, can exclude both the criteria of nationality and publication. This possibility has been provided for mainly in view of the contemporary Nordic legislation, so that implementation of the Rome Convention could be adapted to conditions of

protection already existing under different national laws.

National treatment has to be granted to broadcasting organizations if their headquarters is situated in another Contracting State (principle of nationality) or the broadcast was transmitted from a transmitter situated in another Contracting State, irrespective of whether the initiating broadcasting organization was situated in a Contracting State (principle of territoriality). Contracting States may declare that they will protect broadcasts only if both the condition of nationality and of territoriality are met in respect of the same Contracting State (Article 6).

(iii) The Minimum Protection Required by the Convention

The minimum protection guaranteed by the Convention to performers is provided by "the possibility of preventing certain acts" done without their consent. Instead of enumerating the minimum rights of performers, this expression was used in order to allow countries like the United Kingdom to continue to protect performers by virtue of penal statutes, determining offenses and penal sanctions under public law. It was agreed, however, that the enumerated acts which may be prevented by the performer, require his consent in advance. In fact, the possibility of preventing certain acts as defined in the Convention amounts to a distinct bundle of rights granted to performers.

The restricted acts comprise: broadcasting or communication to the public of a "live" performance; recording an unfixed performance; reproducing a fixation of the performance, provided that the original fixation was made without the consent of the performer or the reproduction is made for purposes not permitted by the Convention or the performer (Article 7).

Producers of phonograms have the right to authorize or prohibit the direct or indirect reproduction of their phonograms (Article 10). The Rome Convention does not provide for any right to authorize performances of the phonogram and does not explicitly prohibit distribution or importation of unauthorized duplicates of phonograms.

Broadcasting organizations have the right to authorize or prohibit: the simultaneous rebroadcasting of their broadcasts, the fixation of their broadcasts, the reproduction of unauthorized fixations of their broadcasts or reproduction of lawful fixations for illicit purposes, and the communication to the public of their television broadcasts by means of receivers in places accessible to the public against payment. It should be noted, however, that this last-mentioned right does not extend to communication to the public of merely sound broadcasts, and that it is a matter for domestic legislation to determine the conditions under which such a right may be exercised. It should also be observed that the Rome Convention does not protect against distribution by cable of broadcasts.

(iv) Provisions for Discretionary Regulation of the Exercise of Rights

The Rome Convention, over and above the minimum requirements of protection, also contains provisions allowing national laws to regulate certain aspects of protection at their discretion.

As regards the protection of performers, it is a matter for domestic legislation to regulate the protection against rebroadcasting of the performance

and fixation thereof for broadcasting purposes, where the broadcasting of the performance was consented to by the performer. The principle of preeminence of contractual arrangements was embodied in a provision requiring that domestic laws shall not operate to deprive performers of the ability to control by contract their relations with broadcasting organizations (Article 7(2)) whereas it was understood that the meaning of contract in this context includes collective agreements and also decisions of an arbitration board, if involved.

If several performers participate in the same performance, the manner in which they should be represented in connection with the exercise of their rights may be specified by each Contracting State (Article 8).

Concerning both the protection of performers and producers of phonograms, Article 12 (perhaps the most controversial part of the Convention) provides that if a phonogram published for commercial purposes is used directly for broadcasting or any communication to the public, an equitable remuneration shall be paid by the user to the performers, or to the producers of the phonogram, or to both. This Article does not grant any right to either the performers or producers of phonograms to authorize or to prohibit the secondary use of a phonogram. By guaranteeing a single remuneration for the use of the phonogram it seems to establish a sort of non-voluntary license. It does not, however, obligatorily specify the beneficiary or beneficiaries of the remuneration for the secondary use of the performance and the phonogram embodying it. Article 12 only says that at least one of the interested parties should be paid for the use; nevertheless it provides that in the absence of agreement between these parties, domestic law may optionally lay down the conditions for the sharing of this remuneration.

The implementation of these provisions, however, can be excluded or restricted by the Contracting States at any time by an appropriate notification (Article 16(1)(a)). A State may declare that it will not apply the provisions of Article 12. A Contracting State may declare that it will not apply this article in respect of certain uses, for instance as regards communications to the public other than broadcasting, or broadcasting of phonograms acquired before the date of the Convention, etc. It is also possible to apply this Article only as regards phonograms of which the producer is a national of another Contracting State. Furthermore, as regards phonograms of which the producer is a national of another Contracting State, the extent and term of protection can be limited so as to correspond to the protection granted by the other State concerned. The fact, however, that the protection in both countries concerned is not granted to the same beneficiary, cannot be considered as justifying the restriction of the protection provided for in Article 12.

(v) Limitations

The Rome Convention allows for certain limitations of the rights granted and, as regards the performers, also imposes limitations on rights itself.

Any Contracting State may provide for exceptions as regards private use, use of short excerpts in connection with reporting current events, ephemeral fixation by a broadcasting organization by means of its own facilities and for its own broadcasts, and for all kinds of uses solely for the purpose of teaching or

scientific research (Article 15(1)). This latter possibility of introducing exceptions may be of special benefit to developing countries.

Besides the exceptions specified by the Convention, any Contracting State may also provide for the same kind of limitations with regard to the protection of performers, producers of phonograms and broadcasting organizations as it provides for in connection with copyright protection. There is, however, an important difference: compulsory licenses may be provided for only to the extent to which they are compatible with the Rome Convention (Article 15(2)).

In view of the cinematographic industry's interest in exclusively exploiting the contributions made to their productions, Article 19 of the Rome Convention provides that once a performer has consented to the incorporation of his performance in a visual or audiovisual fixation, he shall have no further rights under the Rome Convention as regards the performance concerned.

(vi) Duration of Protection

The minimum term of protection under the Rome Convention is a period of twenty years, to be computed from the end of the year in which: the fixation was made, as far as phonograms and performances incorporated therein are concerned, or the performance took place, as regards performances not incorporated in phonograms, or the broadcast took place, for broadcasts (Article 14).

(vii) Restriction of Formalities

If a country requires compliance with formalities as a condition of protecting neighboring rights in relation to phonograms, these should be considered as fulfilled if all copies in commerce of the published phonogram or their containers bear a notice consisting of the symbol ℗, accompanied by the year date of the first publication. If the copies of their containers do not identify the producer or his licensee, the notice shall also include the name of the owner of the rights of the producer and, if the copies or their containers do not identify the principal performers, the notice shall also include the name of the person who owns the rights of such performers (Article 11). It should be emphasized that this provision is not a formality requirement; it is a restriction of formalities, which may be required by some national laws.

The Implementation of the Rome Convention

The Rome Convention has been referred to as a "pioneer convention." Whereas the conventions concluded towards the end of the nineteenth century for the protection of copyright resulted from developments in national laws, this Convention defined standards of protection of neighboring rights at a time when very few countries had any rules enacted to protect performing artists, producers of phonograms and broadcasting organizations. Thus it was only natural that the impetus of the Convention in the field of the protection of neighboring rights during the first years following its adoption, could not be measured so much by the number of ratifications or accessions as by the impact the Convention had on

national laws.

Since 1961, many countries have legislated on the protection of neighboring rights, thus greatly increasing the number of national laws protecting producers of phonograms or broadcasting organizations, and the majority of them as a result of the coming into existence of the Rome Convention. The disproportion between the number of national laws protecting performers' rights and those granting protection to producers of phonograms and broadcasting organizations is still unduly great. There are, however, further draft laws under preparation in several countries, which continue to demonstrate the tendency to pay more attention to the protection of performers' rights.

Since 1974, additional assistance is available to national laws in the form of a Model Law Concerning the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, with a commentary on it, prepared by WIPO, Unesco and the International Labour Organization, the international organizations which jointly administer the Rome Convention. This Model Law has proved an efficient aid, especially to developing countries.

The comparatively slow progress of national laws in the field of neighboring rights, and in particular the unequal development of protection as regards different beneficiaries of these rights, even today hinders accession to the Rome Convention, since it requires at the same time protection of performers, producers of phonograms and broadcasting organizations.

The Rome Convention and Developing Countries

A large number of the States party to the Rome Convention are developing countries. This is quite natural since most developing countries attach great importance to music, dance and other creations, in their national heritage. The value of the Rome Convention to such countries stems from the fact that it affords the protection of those who contribute to the dissemination of that heritage abroad.

The Convention is particularly important to those countries whose civilization and tradition are oral and where the author is often the performer as well. In this context, the place occupied by expressions of folklore must be borne in mind and the interests of the artists constantly performing, and thus perpetuating them, must be safeguarded when use is made of their performances. Whilst the possibilities of protecting creations of folklore by copyright seem to be limited, and the establishment of a more adequate kind of protection sui generis appears to require more time, expressions of folklore can efficiently be protected indirectly by protecting performances, fixations, and broadcasts of them.

By also protecting the producers of phonograms, the Rome Convention promotes, particularly in developing countries, industry in a dynamic tertiary sector of the economy. Such an industry, while guaranteeing the dissemination of national culture, both within the country and throughout the world, can additionally constitute a substantial source of revenue for the country's economy and, in those cases where its activities extend beyond frontiers, can attract an inflow of foreign currency.

By giving performers and phonogram producers the possibility of benefiting from their performances and productions, the Rome Convention is

instrumental in promoting the artistic heritage and represents an important incentive to creativity. It is also certain that, where the interests of performers and producers of phonograms are safeguarded by law, works will enjoy greater development and that those works will suffer less from the competition of unprotected performances of foreign works. Where performances and phonograms are exported, there is one reason more to protect them internationally, that is to say, by accepting the relevant international conventions.

Finally, the part played by the broadcasting organizations in the developing countries should not be forgotten either, since they also have an interest in the protection of their costly program against rebroadcasting, reproduction and communication to the public of their broadcasts. The rebroadcasting or reception of television broadcasts in public places can be very profitable, especially when the subject of the original broadcast is an exceptional event. Frequently, the organizers of such events only allow broadcasting for certain territories or on the condition that no public reception close to the place of the event drains away potential spectators. The broadcasting organization must therefore be able to prohibit rebroadcasting and public reception. The same applies to broadcasting of performances or recordings of expressions of national folklore: the broadcasting organization should be entitled internationally to prevent rebroadcasting or fixation for reproduction of its own broadcast of works of the national heritage.

ii. The Geneva and Brussels Conventions

WORLD INTELLECTUAL PROPERTY ORGANIZATION
INTELLECTUAL PROPERTY READING MATERIAL
¶¶ 5.483-509 (2d ed. 1998)

(a) The Other Special Conventions

Besides the Rome Convention of 1961 . . . , two other international instruments have been drawn up with regard to certain neighboring rights. These are the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, concluded in Geneva in October 1971 and generally referred to as "the Phonograms Convention," and the Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite, concluded in Brussels in May 1974 and known briefly as "the Satellites Convention." These two Conventions are also within the area of neighboring rights, and their purpose is to protect producers of phonograms and broadcasting organizations, respectively, against certain prejudicial acts that have been widely recognized as infringements or acts of piracy.

With regard to the Rome Convention, the Phonograms Convention and the Satellites Convention may be regarded as special agreements, the conclusion of which is reserved for Contracting States insofar as the agreements grant to performers, producers of phonograms or broadcasting organizations more extensive rights than those granted by the Rome Convention, or contain other provisions not contrary to that Convention (Article 22 of the Rome Convention).

(b) Reasons for and Purposes of the Special Conventions

The reason for the rapid acceptance . . . of the Phonograms Convention is due, on one hand, to the accelerating increase in international piracy during the last two decades, and, on the other hand, to the legal characteristics of the Convention itself.

While a number of countries were preparing new legislation in the field of neighboring rights in view of the standards set by the Rome Convention, international piracy of sound recordings was growing. The total value of pirated sound recordings sold worldwide has been increasing steadily. This made it necessary, even in the early seventies, to establish a special convention without delay. The subject was raised in May 1970 in the Preparatory Committee for the revision of the two major copyright conventions, and the new Convention was signed in less than 18 months in Geneva.

The Phonograms Convention takes into account all the measures that had already been adopted in various national laws, and allows for the application of all of them instead of requiring a uniform solution, as is the case under the Rome Convention, which provides for the granting to producers of phonograms the right to authorize or prohibit the reproduction of their phonograms. Thus, amendments of existing national laws became largely unnecessary to States which already protected producers of phonograms by some other means and wanted to extend this kind of protection also at the international level.

The Satellites Convention was adopted because the use of satellites in international telecommunications has, since about 1965, been presenting a new problem for the protection of broadcasting organizations.

Nowadays the transmission of programs by satellite still takes place mainly indirectly. Electronic signals carrying broadcast programs pass through a satellite to reach remote parts of the globe that cannot be reached by traditional broadcasting; but the programme-carrying signals passed on by the satellite cannot be picked up directly by conventional receivers generally used by the public at large. They first have to be picked up by ground stations, which distribute them to the public.

In the case of direct broadcasting, which is in the process of becoming an everyday occurrence, the signals sent to the satellite are demodulated by the satellite itself; as a result, the signals transmitted down to earth can be received directly from space by ordinary receivers, without the intervention of ground receiving stations. However, the signals transmitted upwards to the satellite remain inaccessible to the public even with this mode of transmission.

The legal problem stems from the wording of Article 3 of the Rome Convention, under which broadcasting means the transmission by wireless means for public reception of sounds or of images and sounds. The difficulties with regard to satellite transmission are twofold: on one hand, the signals emitted by the originating organization are not suitable for public reception; on the other hand, the derived signals, generally obtained by means of ground stations, are frequently transmitted to the public by wire and not by wireless means.

The Satellites Convention provides a solution by requiring Contracting States to take adequate measures to prevent the distribution of any programme-carrying signals by any distributor for whom the signal emitted to or

passing through the satellite is not intended. "Distribution" is defined by the Convention as the operation by which a distributor transmits derived signals to the public, and therefore also encompasses cable distribution.

(c) Main Features of the Special Conventions

While it can be said that the Phonograms Convention and the Satellites Convention supplement the Rome Convention to a certain extent, it should nevertheless be mentioned that their approach is different, in three main respects.

First, the Rome Convention gives the beneficiaries of neighboring rights essentially a right to authorization or prohibition, without overlooking the safeguarding of the rights of authors. The Phonograms and Satellites Conventions, on the other hand, do not introduce private rights but rather leave the Contracting States free to choose the legal means of preventing or repressing acts of piracy in that area.

Second, the Rome Convention is based on the "national treatment" principle. That means that the protection prescribed by the Rome Convention is only minimum protection and that, apart from the rights guaranteed by that Convention itself as constituting that minimum of protection, and within the limits of reservations conceded by it, performers, producers of phonograms and broadcasting organizations enjoy the same rights in countries party to the Convention as those countries grant their nationals. The Phonograms Convention does not speak of the system of "national treatment," but defines expressly the unlawful acts against which Contracting States have to provide effective protection; consequently, the States are not bound to grant foreigners protection against all acts prohibited by their national legislation for the protection of their own nationals. For instance, countries whose national legislation provides protection against the public performance of phonograms are not obliged to make this form of protection available to the producers of phonograms of other Contracting States, because the Phonograms Convention does not itself guarantee any protection against the use in public of lawfully reproduced and distributed phonograms. It should be mentioned, however, that even the Phonograms Convention is in no way to be interpreted as limiting the protection available to foreigners under any domestic law or international agreement (Article 7(1)). The question of national treatment does not arise, as a general rule, in the Satellites Convention either. This Convention places Contracting States under the obligation to take the necessary steps to prevent just one type of activity, namely the distribution of programme-carrying signals by any distributor for whom the signals emitted to or passing through the satellite are not intended.

Third, in the interests of combating piracy over the widest possible area, the new international agreements were made open to all States members of the United Nations or any of the specialized organizations brought into relationship with the United Nations, or parties to the Statute of the International Court of Justice (virtually all States of the world). In contrast the Rome Convention is a "closed" Convention, its acceptance being reserved for States party to at least one of the two major international copyright conventions.

(d) Substantive Provisions of the Phonograms Convention

As far as the substantive provisions are concerned, the Phonograms Convention differs from the Rome Convention mainly as regards (i) the criteria of eligibility for protection, (ii) the scope of protection, and (iii) the means of ensuring the protection provided for.

The Phonograms Convention requires only the criterion of nationality as a condition of granting protection. Any Contracting State, however, which on October 29, 1971, afforded protection solely on the basis of the place of first fixation may, by a declaration deposited with the Director General of WIPO, declare that it will apply this criterion.

Protection is granted not only against making duplicates of the phonogram, but also against the distribution of illicit duplicates and importation of such duplicates for distribution (Article 2). On the other hand, the scope of protection does not extend to claiming remuneration for secondary uses of the phonogram.

The means by which the Phonograms Convention is to be implemented are a matter for domestic legislation. They may include protection by granting copyright in the phonogram, by granting other specific (neighboring) rights, by the law relating to unfair competition, or by penal sanctions (Article 3).

The Phonograms Convention permits the same limitations as those accepted in relation to the protection of authors. The Convention also permits compulsory licenses if reproduction is intended exclusively for teaching or scientific research, limited to the territory of the State whose authorities give the license, and in return for equitable remuneration.

Regarding the term of protection, the same minimum duration is required by the Phonograms Convention as by the Rome Convention: if the domestic law prescribes a specific duration for the protection, that duration shall not be less than 20 years from the end either of the year in which the sounds embodied in the phonogram were first fixed or of the year in which the phonogram was first published.

It should be noted that the Phonograms Convention also contains a provision concerning performers. Under its Article 7, the national legislation of each Contracting State may lay down, where necessary, the scope of protection afforded to performers whose performance is fixed on a phonogram and the conditions of enjoying such protection.

(e) Substantive Provisions of the Satellites Convention

The Satellites Convention enlarges the scope of the protection of broadcasting organizations, by suppressing the unlawful distribution of programme-carrying signals transmitted by satellite irrespective of the fact that such signals are not suited to reception by the public, and, consequently, irrespective of the fact that their emission does not constitute broadcasting according to the definition of this notion under the Rome Convention. Furthermore, the protection provided for by the Satellites Convention also applies when the derived signals are distributed by cable and not by wireless means, a kind of communication to the public of broadcasts not covered by the Rome Convention. Formally, however, the Convention gives no new right to the broadcasting organizations. It obliges the Contracting States to prevent the

distribution of programme-carrying signals by any distributor for whom the signals passing through the satellite are not intended.

It should be noted that the Satellites Convention does not protect the transmitted program, since the subject of the protection is the signals emitted by the originating organization. As regards the rights related to the programs, the Convention simply lays down that it may not be interpreted in any way as limiting or prejudicing the protection afforded to authors, to performers, to phonogram producers and to broadcasting organizations.

The Satellites Convention permits the distribution of programme-carrying signals by non-authorized persons, if those signals carry short excerpts containing reports of current events or, as quotations, short excerpts of the program carried by the emitted signals, or, in the case of developing countries, if the program carried by the emitted signals is distributed solely for the purposes of teaching, including adult teaching or scientific research.

With regard to the duration of the protection, the Satellites Convention refers to national legislation in this special context. In any State in which the application of the above measures is limited in time, the duration is to be fixed by its domestic law.

The Satellites Convention is not to be applied when the signals emitted by the originating organization are intended for direct reception from a satellite by the public (Article 3). In such cases the signals emitted are not intended for any intervening distributor of derived signals; they are directly accessible to the public at large.

(f) The Phonograms and Satellites Conventions and Developing Countries

It is particularly significant that the States that have joined the Phonograms and Satellites Conventions, as with the countries party to the Rome Convention, are not necessarily highly industrialized market economy States. This may be explained by the role that protection of neighboring rights is capable of playing in the development of those countries: the role of such protection in development, as explained under the Rome . . . is similar where the Phonograms and Satellites Conventions are concerned.

NOTES AND QUESTIONS

1. The three neighboring rights conventions described above have considerably smaller memberships than the Berne Convention or the TRIPS Agreement. As of June 1999, the Rome Convention had 61 members, the Geneva Phonograms Convention, 57, and the Brussels Satellite Convention, 23.

2. The United States has joined the Geneva and Brussels Conventions, but not the Rome Convention. What is the explanation for its failure to join Rome?

3. How strong is the protection provided to performers by the Rome Convention? Note in particular Article 19, as well as the different formulation of protection for performers in Article 7 as compared to the rights of producers in Article 10 and the rights of broadcasters in Article 13 ("the possibility of preventing" versus "the right to authorise or prohibit"). As a practical matter,

what economically significant rights do performers have under the current international treaties?

3. Trade and Investment Treaties

a. The NAFTA Agreement

Ysolde Gendreau, COPYRIGHT HARMONIZATION IN THE EUROPEAN UNION AND IN NORTH AMERICA
20 Colum.-VLA J. L. & Arts 37, __-__ (1995)

The parties to the NAFTA did not seek to establish a common market, but rather a free trade area. In terms of economic integration, such a structure provides the loosest form of integration . . .

The NAFTA can best be described as a "mini-GATT." As such, it partakes in the current trend to include intellectual property rules in trade agreements and, unlike the Treaty of Rome, thus contains specific provisions on copyright. Indeed the preamble of the NAFTA declares that the parties have resolved "to promote creativity and innovation and to encourage the trade of goods and services that form the subject of intellectual property rights." Moreover, Article 102 of the agreement states as one of its objectives the effective protection and enforcement of intellectual property rights in the territory of each Party to the agreement. In light of such policy considerations, it is no surprise to see that a whole chapter of the NAFTA is devoted to intellectual property matters.

. . . . .

Chapter 17 of the NAFTA comprises twenty-one articles, thirteen of which apply to copyright-related issues. Taken as a whole, they indicate that the goal of the agreement is to ensure compliance with the 1971 text of the Berne Convention and with the 1971 Geneva Convention on Phonograms, as well as to settle some other ad hoc issues that are not solved by these Conventions. In particular, the problem of the enforcement of the exclusive rights seems to have been of great importance.

The first four articles of chapter 17 cover topics of general interest in intellectual property, including fulfillment of the requirements of the international conventions, the possibility of greater protection than that prescribed by the NAFTA, a rule of national treatment, and a provision for control over the misuse of intellectual property rights. Articles 1714 to 1718 pertain to the enforcement of intellectual property rights. The last article of the chapter provides definitions. That leaves only three articles which clearly pertain to substantive copyright-related problems. Two of these address sound recordings and the unauthorized transmission of encrypted satellite signals. Thus, the sole article on copyright per se is article 1705, which contains all the material requirements for the protection of computer programs and databases, the minimal rights to be granted to copyright owners (importation, first distribution, communication to the public, and commercial rental of computer programs), a provision regarding the freedom of contract, term of protection, the exceptions to copyright, and the compulsory licenses that may be granted pursuant to the Appendix of the Berne Convention. In all, the NAFTA copyright provisions appear to be a list of specific U.S.

demands to its partners to bring their levels of protection in line with what is acceptable to U.S. interests.

There is nothing inherently wrong about a harmonization scheme that seeks to promote the higher standards of one country over less demanding criteria: lower thresholds necessarily breed greater discrepancy and are therefore not desirable if harmonization is indeed the goal. What is more disturbing, however, is the presence of rules that distort the professed intention to harmonize legislation. Three cases come to mind. First, while all three countries must give effect to the Berne Convention, the United States is exempt from Article 6bis on moral rights.[9] Thus, U.S. authors of, say, musical works can rely on the moral rights provisions of Canadian and Mexican legislation, but Canadian and Mexican authors have no clearly equivalent legal texts available to them under U.S. law.[10] Another example can be found in the article on national treatment: material reciprocity becomes the rule for performers' rights in sound recordings with regard to the secondary uses of these recordings because of the lack of such rights in the United States and Canada at the time of the drafting of the Agreement.[11] Lastly, the same article on national treatment, which applies to both the exclusive rights and the enforcement of these rights, is drafted in such a way as to allow for the U.S. registration requirement as a prerequisite for obtaining statutory damages and attorney's fees.[12]

In general, then, the NAFTA has not succeeded in establishing a true consensus on the issues of moral rights, neighboring rights as a whole, and formalities, three topics that are particularly sensitive in countries that belong to the copyright tradition.[13] Contrary to what seems to be taking shape in the European Union, the copyright tradition is clearly emerging as the dominant force in copyright harmonization in North America, a result which cannot come as a surprise.[14]. . .

Th[e] absence of details can perhaps best be explained by the nature of the agreement. The NAFTA operates here like another international treaty: it leaves the bulk of the details to the national legislatures. Moreover, it is not per se a copyright convention like the Berne Convention where, because it is solely aimed at providing an array of copyright standards, it would be of its essence to arrive at as complete a set of rules as possible. The NAFTA is a general trade treaty that must make its niche without encroaching inappropriately upon the subject matter that comes within the domain of other international fora . . .

. . . Another major difference [from the European approach] stems from the importance that is given in North America to the enforcement of intellectual property rights, including copyright. It can be explained by the fact that the NAFTA "is the first trade agreement of its kind which integrates the economies of developed and developing countries" and that Mexico "did not have a comprehensive enforcement mechanism for intellectual property."

NOTES AND QUESTIONS

The NAFTA intellectual property provisions were negotiated based on an early draft of the TRIPS Agreement, so the two agreements bear a striking resemblance to each other. Although all three NAFTA signatories are WTO members subject to the TRIPS Agreement, the NAFTA intellectual property provisions remain relevant for several reasons. NAFTA exceeds the protection

required by the TRIPS Agreement in important respects: NAFTA has a stronger national treatment obligation in the area of copyrights, for example; NAFTA contains shorter transition periods; and it establishes its own distinct dispute settlement mechanism.

b. The TRIPS Agreement

As a broad-based multilateral agreement on intellectual property rights, the TRIPS Agreement was ground breaking in many respects. Section I of Part II of the Agreement covers copyright and related rights. It adopts and supplements the norms of the Berne and Rome Conventions in various respects.

First, TRIPS incorporates the substantive obligations of Berne, requiring WTO members to comply with Articles 1 through 21 of the Paris Act of Berne, as well as the Appendix. TRIPS Article 9(1). It explicitly excludes from coverage, however, moral rights under Berne article 6*bis*.

Resolving long-standing debates at the international level, the Agreement also confirms that computer programs and compilations of data (those that "by reason of the selection or arrangement of their contents constitute intellectual creations") are copyrightable works, subject to protection under Berne. Article 10. In a related provision, it articulates an international version of the idea/expression dichotomy, stating: "Copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such." Article 9(2). Cf. Berne article 2(8) ("The protection of this Convention shall not apply to news of the day or to miscellaneous facts having the character of mere items of press information").

The Agreement adds one new exclusive right not found in Berne or Rome: the right to authorize or to prohibit commercial rental to the public. The obligation to provide a rental right is limited, however, to three categories of works: computer programs, cinematographic works, and phonograms. Articles 11 and 14(4). Even as to these three categories, the obligation is further limited in various respects. As to cinematographic works, it only applies if "such rental has led to widespread copying of such works which is materially impairing the exclusive right of reproduction in that Member [State]"; as to computer programs, it does not apply to rentals "where the program itself is not the essential object of the rental." Article 11. As to phonograms, those Member States that had systems of equitable remuneration in place for the rental of phonograms before the conclusion of the Agreement may instead maintain such systems as long as the rental "is not giving rise to the material impairment of the exclusive rights of reproduction of right holders." Article 14(4).

The Agreement requires additional protection of neighboring rights, much along the lines of the Rome Convention. For performers, these rights consist of the possibility of preventing the following unauthorized acts: fixation of an unfixed performance and the reproduction of such fixation, but only in respect of fixations of the performance on a phonogram, as well as broadcasting by wireless means and communication to the public of a live performance. Article 14(1). For producers of phonograms, there is a right to authorize or prohibit direct or indirect reproduction. Article 14(2). Broadcasters have the right to prohibit the following unauthorized acts: fixation, reproduction of fixations, and rebroadcasting by

wireless means of broadcasts, as well as communication to the public of television broadcasts of the same. Article 14(3). Providing these rights to broadcasters, however, is not entirely obligatory; Member States have the option to instead "provide owners of copyright in the subject matter of broadcasts with the possibility of preventing" these acts. Id.

No specific exceptions or limitations are provided. Rather, the Agreement generalizes for all exclusive rights the three-step test applied to the reproduction right under article 9(2) of the Berne Convention. Article 13. In the case of related rights other than rental, it also explicitly permits Member States to apply conditions, limitations, exceptions and reservations to the extent permitted by the Rome Convention. Article 14(6).

The Agreement further provides a minimum term of protection for those works for which the term is calculated on a basis other than the life of a natural person: 50 years from the end of the calendar year of authorized publication, or, if not published within 50 years, 50 years from the end of the calendar year of making. Article 12. For performers and producers of phonograms, the term is 50 years from the end of the calendar year of the fixation or performance; for broadcasters, 20 years from the end of the calendar year of the broadcast. Article 14(5).

Finally, retroactive protection is required for related rights as well as copyright; the treaty obligations apply to preexisting subject matter whose term of protection has not yet expired in the country of origin. Articles 9(1) and 14(6).

NOTES AND QUESTIONS

1. Other elements of the TRIPS Agreement are also critical to the protection of copyright and related rights, but are not specific to those areas, applying to all forms of intellectual property. As discussed in more detail in Chapter IV above, these include the requirement not only of national treatment but MFN treatment, and the promotion of "transparency" through obligations to "notify" virtually every aspect of a country's relevant laws and regulations, and to respond to questions on those laws and regulations. The most important aspect of TRIPS, however, is that it supplies key elements lacking in Berne: mechanisms for enforcement of rights and adjudication of disputes between Member States over the adequacy of their implementation of treaty obligations.

2. The TRIPS obligations in the area of copyright and related rights took effect for developed countries on January 1, 1996. Grace periods were provided for developing and least developed countries, which are not obligated fully to implement the copyright provisions of TRIPS until the years 2000 and 2006, respectively.

3. In furtherance of the transparency goals of the TRIPS Agreement, a process was also established for countries to review each others' laws in the TRIPS Council. The first such review took place in July 1996, and covered the copyright and related rights laws of the developed countries. A description of the procedure followed and the substance of the questions posed by and to the United States can be found in Shira Perlmutter, *Copyright and International TRIPS Compliance,* 8 Fordham Int. Prop., Media & Ent. L. J. 83 (1997).

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Two issues that were the subject of numerous questions on all sides were how retroactive protection for existing works and subject matter of neighboring rights was implemented in national legislation, and the scope of exceptions and limitations to rights.

i. Retroactive Protection for Pre-existing Works

Matthijs Geuze and Hannu Wager, WTO DISPUTE SETTLEMENT PRACTICE RELATING TO THE TRIPS AGREEMENT
J. Int'l Economic L. 347 (1999)

The first WTO dispute settlement case involving the TRIPS Agreement concerned the protection of phonograms (or sound recordings). The United States requested on 9 February 1996 consultations with Japan, claiming that Japan's legal regime for the protection of sound recordings appeared to be inconsistent with, *inter alia*, Articles 14 and 70 of the TRIPS Agreement. The European Communities and their member states joined these consultations.

By means of a communication dated 24 May 1996, the European Communities and their member states requested consultations with Japan on the same matter. In its complaint, the EC argued that by virtue of the TRIPS Agreement, particularly its Articles 14.6 and 70.2 in conjunction with Article 18 of the Berne Convention (1971), WTO Members were required to protect producers and performers of sound recordings for a period of 50 years from the end of the year in which the fixation was made or the performance took place and which had not yet fallen into the public domain. According to the complaint, this meant in practice that works which had come into existence since 1 January 1946 had to be given TRIPS level protection for the remainder of the 50-year period because the TRIPS Agreement became effective for the developed country Members of the WTO on 1 January 1996. The Japanese TRIPS legislation implementing the respective obligations (Law No. 112 of 1994) only provided for protection of those sound recordings produced after 1 January 1971. In the view of the EC, the Japanese legislation was therefore not compatible with Japan's obligations under the TRIPS Agreement, since it did not extend the protection of sound recordings produced in the time period between 1 January 1946 and 1 January 1971. The United States joined these consultations.

Both complaints appeared to deal with the interpretation of the provisions that determine how Member countries should protect the rights of performers and producers of phonograms in phonograms that existed at the date of application of the Agreement for the Member in question. Article 9.1 of the TRIPS Agreement obliges WTO Members to comply with Article 18 of the Berne Convention (1971). Article 14.6 of the Agreement provides that the provisions of Article 18 of the Berne Convention (1971) shall also apply, *mutatis mutandis*, to the rights of performers and producers of phonograms in existing phonograms. Article 70.2 of the Agreement further clarifies that in respect of paragraphs 2, 3 and 4 of Article 70 of the Agreement, copyright obligations with respect to existing works shall be solely determined under Article 18 of the Berne Convention (1971), and obligations with respect to the rights of producers of phonograms and performers

in existing phonograms shall be determined solely under Article 18 of the Berne Convention (1971) as made applicable under Article 14.6 of the Agreement.

Article 18 of the Berne Convention provides that the Convention shall apply to all works which, at the moment of its coming into force, have not yet fallen into the public domain in the country of origin through the expiry of the term of protection. If, however, through the expiry of the term of protection which was previously granted, a work has fallen into the public domain of the country where protection is claimed, that work shall not be protected anew. The application of this principle is subject to any provisions contained in special conventions to that effect existing or to be concluded between countries of the Union. In the absence of such provisions, the respective countries shall determine, each in so far as it is concerned, the conditions of application of this principle.

The United States and Japan informed the DSB on 24 January 1997 that they had reached a mutually agreed solution to the dispute. On 7 November 1997, the EC and Japan notified a mutually agreed solution. As regards the issues dealt with in these two notifications, we will quote only from the latter notification:

> The Community and its Member States requested consultations in the belief that the TRIPS Agreement requires Members of the World Trade Organization (WTO) to grant protection to performers first performing in a WTO Member and to producers of sound recordings first fixed in a WTO Member or fixed by a national of a WTO Member for a term of at least 50 years from the end of the calendar year in which the fixation was made or the performance took place and that this term of protection should extend to those existing recordings which have not yet fallen into the public domain in the country of origin or in the country where protection is sought.
>
> On 26 December 1996, the Government of Japan promulgated amendments to the Japanese Copyright Law, which entered into force on 25 March 1997 (Law No. 117). These amendments are intended to provide the above-described protection to performers and producers of sound recordings.

United States Department of Commerce
Patent and Trademark Office
Assistant Secretary and Commissioner
of Patents and Trademarks
Washington, DC 20231

Nov. 23, 1998

Dr. Kamil Idris
Director General
World Intellectual Property Organization
34, chemin des Colombettes

1211 Geneva 20
Switzerland

Dear Dr. Idris:

I am writing to you seeking the expertise of WIPO on a matter of great importance to the United States. In ongoing bilateral and multilateral consultations undertaken by the United States, the extent of the rights and obligations concerning the protection of existing works under Article 19 of the Berne Convention for the Protection of Literary and Artistic Works continue to surface. . . . To further our consideration of those issues, I would appreciate the further informal views of the International Bureau of WIPO. Of course, we are not requesting any "official interpretation" of the Berne Convention by the International Bureau; but, we are very interested in your informal views.

In particular, we are concerned about the treatment of certain works of U.S., origin in other Berne Union countries in light of the obligations of Article 18. Our concern is that U.S. works that may have fallen into the public domain in the United States solely as a result of noncompliance with our former formality-based copyright system may be denied a full term of protection in other Berne Union countries. At the core, it seems to us that the failure of an author to adhere to prior Berne-incompatible formalities such as notice, original registration or, in particular, renewal registration in the United States should not prevent that work from enjoying a full term of copyright protection in other Berne Union countries, even though such work may no longer enjoy protection in the U.S. At issue is the application of Articles 18, 5 and 7 of Berne to such works of U.S. origin.

The United States provides a very generous and Article 18-compatible form of full protection for all pre-existing, non-U.S. works from Berne Union and World Trade Organization (WTO) countries, including the restoration of protection for all such works which previously fell into the public domain in the United States because of failure to comply with formalities. We believe, therefore, that interpretations of Article 18 obligations by other countries that would cut short the term of protection for similarly situated U.S. works would be unfair and incompatible with their Berne obligations.

This restored protection in the U.S. is provided to works of origin other than the United States without any reciprocal or comparison of term obligations. Under 17 U.S.C. § 104A, effective January 1, 1996, all qualifying Berne and WTO works are granted the remainder of the U.S. term of protection they would have enjoyed had not they fallen into the U.S. public domain for failure to comply with U.S. formalities such as copyright notice, original registration or renewal. The term of protection for both foreign and domestic works has recently been extended to a minimum of the life of the author and 70 years or 95 years from publication for works made for hire. As a result the term of protection for subsisting foreign copyrights under section 104A would be 95 years for purposes of comparison of term.

In order to assist in framing the issues, we suggest as an example, a work of U.S. origin which was created in 1940 and first published in the United States in 1940. Given the time of its creation, such a work would have been subject to the 1909 U.S. Copyright Act. The 1909 Act conditioned copyright protection

upon the observance of formalities, including, among other things, the use of a copyright notice upon publication and the timely filing of an original and a renewal registration, including proper filing of an application, deposit and fee. If a copyright owner failed to use a copyright notice upon publication, under certain conditions the work fell into the public domain. If a copyright owner did use proper notice but failed to file an original or a timely renewal registration application accompanied by the fee, copyright protection for that work was terminated, and could not be revived. Such a work created in 1940 thus would have fallen into the public domain in the U.S. at the end of the twenty-eighth year; in this example, in 1968 unless the formalities were observed. By contrast, if registration, renewal and all other formalities were properly followed, such a work from 1940 would be protected in the U.S. for a full term of 95 years from publication, that is, until 2035.

Our concern now, and our reason for writing you, is to seek your opinion on whether a work whose country of origin *is* the United States that may be in public domain in the United States for failure to comply with any of our old formalities, would be entitled to a "full term" of protection in other Berne Union countries. This "full term," we believe, should be provided so that where the comparison of terms rule is applicable, the U.S. term used for that comparison is not less than 95 years from the date of first publication.

The question is how application of Articles 5, 7 and especially 18, require other Berne Union countries to treat such a work in their territories. We believe that under the cited articles, other Berne Union countries are obligated to extend a "full term" of protection to such existing works, regardless of their public domain status in the United States. We would appreciate receiving your views on this important matter.

Sincerely,

Robert L. Stoll
Administrator, Office of Legislative and International Affairs

World Intellectual Property Organization
December 17, 1998

Mr. Robert L. Stoll
Administrator, Office of Legislative and International Affairs
United States Patent and Trademark Office
Department of Commerce
Washington, D.C. 20231
United States of America

Dear Mr. Stoll,

I have received your letter of November 23, 1998, addressed to the Director General of the World Intellectual Property Organization (WIPO), in which you have asked the International Bureau of WIPO to provide its informal

view on a specific issue of the application of Article 18 of the Berne Convention. The International Bureau has the pleasure to be at the disposal of your office in expressing its views on this issue, on the understanding-also indicated in your letter-that the views expressed should not be considered an "official interpretation" of the Convention. As I understand, you have referred to the following legal situation under the legislation of the United States of America:

(i) Under Copyright Act of 1909, statutory copyright protection was subject to the condition of certain formalities (copyright notice, registration), and under its section 24, it endured for 28 years from the date of first publication and for a further period of 28 years also subject to a formality, namely to the registration of an application for the renewal and extension of the term of protection at the Copyright Office within one year prior to the expiration of the first 28 years. The section provided that "in default of the registration of such application for renewal and extension, the copyright in any work shall determine at the expiration of twenty-eight years from first publication."

(ii) In respect of works which were in the first 28 years of the term of statutory protection on January 1, 1978, section 304 of the Copyright Act of 1976 extended the second 28 year period to 47 years; the conditions of renewal and extension of the duration of protection remained the same.

(iii) When the United States adhered to the Berne Convention, the Berne Implementation Act of 1988 divided pre-existing works into two categories: those still protected by copyright and those in the public domain in the United States of America.

With regard to the first category, the Act provided transitional provisions in harmony with the Convention, but, with regard to the other category, it did not resuscitate the works concerned from the public domain. It also eliminated formalities as conditions of protection.

(iv) The Act to Implement the Results of the Uruguay Round of Multilateral Trade Negotiations of 1994, by its section 514 on "Restored Works" amended section 104A of the Copyright Law (Title 17 of the United States Code) as a result of which non-U.S. pre-existing works that had failed to comply with U.S. formalities, and therefore had fallen into the public domain in the United States, received retroactive protection. Under that legislation, effective January 1, 1996, all works enjoying protection through the Berne Convention and/or the TRIPS Agreement are granted retroactively the remaining term of protection of the 28+47=75 year term. This retroactive protection, however, does not extend to pre-existing U.S. works; they have remained in the public domain.

(v) Recently, under the "Sonny Bono Copyright Term Extension Act" of 1998, the above-mentioned term was extended by 20 years to 95 years.

It is against this background that you have outlined the issue as [excerpted above] . . . .

I do agree with you that especially Article 18 of the Berne Convention is relevant in this context, the text of which is as follows:

> "(1) This Convention shall apply to all works which, at the moment of its coming into force, have not yet fallen into the public domain in the country of origin through the expiry of the term of protection.
>
> "(2) If, however, through the expiry of the term of protection which was previously granted, a work has fallen into the public domain of the country where protection is claimed, that work shall not be protected anew.
>
> "(3) The application of this principle shall be subject to any provisions contained in special conventions to that effect existing or to be concluded between countries of the Union. In the absence of such provisions, the respective countries shall determine, each in so far as its is concerned, the conditions of application of this principle.
>
> "(4) The preceding provisions shall also apply in the case of new accessions to the Union and to cases in which protection is extended by the application of Article 7 or by the abandonment of reservations."

. . . . From the viewpoint of the issue raised by you, the interpretation of paragraph (1) of the above-quoted Article seems to be particularly important, since the fundamental question is whether or not the Convention is applicable for certain works whose country of origin is the United States of America and which are in the public domain there; that is, whether or not the other countries party to the Convention and/or Members of the World Trade Organization (WTO) (the latter, of course, subject to the transitional provisions) are obliged to protect such works.

As quoted above, under its paragraph (1) of Article 18, the Convention obliges the countries party to the Convention to protect all works which "at the moment of its coming into force, have not yet fallen into the public domain in the country of origin through the expiry of the term of protection." (Paragraph (4) makes it clear that this provision is also applicable in the case of new accessions to the Convention.)

In respect of those works which, due to the non-compliance with formalities (such as the requirement of publication with notice), have never been protected, it is clear that they "have not fallen into the public domain ... through the expiry of the term of protection" (emphasis added) since there has been no term of protection applicable for them. Thus, . . . in such a case it is a clear obligation of the other countries party to the Convention and/or Members of WTO to protect such works.

This is also underlined by Article 5(2) which contains both the principle of formality-free protection and the principle of "independence of protection" and which reads as follows:

"(2) The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed."

I believe that, if any questions may emerge concerning the application of Article 18(l) of the Convention in respect of works whose country of origin is the United States of America and which are in the public domain in the United States, then such a question may only concern those works which were protected for 28 years under the law referred to in points (i) but then fell into the public domain because no application was registered in due time for the renewal and extension of protection for the remaining 28 years, or later, for the remaining 47 (which became 67 years under the new U.S. law) years, of the duration of protection. In such a case also, the test which should be applied is the question of whether the works concerned have fallen into the public domain through the expiry of the term of protection or for some other reason, for example for non-compliance with a formality.

The provisions referred to in points (i) and (ii) are clear in this respect. Under the Copyright Act of 1909, the duration of protection was 28+28 years, and, under the Copyright Act of 1976, it was 29+47 (now 67). The second period, however, was subject to the fulfillment of a further formality, namely the registration of an application. It is obvious that the reason for the falling into the public domain of the works concerned was not that the cumulative term of protection was over; the only and exclusive reason was the non-compliance with a formality. Thus, the works did not fall into the public domain through the expiry of the term available under the law, but due to another reason. Therefore, subject to the provisions of the Convention concerning the term of protection and national treatment, the other countries party to the Convention and/or Members of WTO are obliged to apply the provisions of the Convention for such works.

The same interpretation of the phrase "expiry of the term of protection" is to be given also in the context of Article 18(2) of the Berne Convention. Accordingly: if a work of United States origin was previously not protected in a country due to the comparison of terms principle which was in effect prior to the adherence of the United States to the Berne convention (such as that found in the Universal Copyright Convention) and the country's failure to protect such a work under such a principle was due to the work's falling into the public domain in the United States for failure to observe formalities, then such previous denial of protection under such circumstances does not exempt a country from being required to provide protection under Article 18(2). . . .

Turning now to the issue of the duration of protection of such works which the other countries party to the Convention and/or Members of WTO are obliged to grant, as you have rightly indicated in your letter, it is clear that Articles 5 and 7 of the Convention are applicable.

Article 5(1) of the Convention provides as follows:

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

Article 7(8) confirms this principle, but, at the same time, it also introduces a possible exception, as follows:

> "(8) In any case, the term shall be governed by the legislation of the country where protection is claimed; however, unless the legislation of that country otherwise provides, the term shall not exceed the term fixed in the country of origin of the work."

The question is which term should be considered "the term fixed in the country of origin of the work" from the viewpoint of the above-quoted provision in the case of a work whose country of origin is the United States of America, and which, for the reasons of non-fulfillment of formalities is in the public domain (either because it has never been protected due to the non-compliance with formalities at the time of its publication or because it has fallen into the public domain due to the non-compliance with a formality (registration) necessary for the continuation of the protection until the end of its cumulative duration).

I believe that the answer to this question is obvious, namely that that term should be considered to be "the term fixed in the country of origin of the work" which would be applicable provided that the formalities would have been complied with (or put in another way, provided that the formalities would not have existed).

I do agree with you that the best way is through an example to present these issues and the solutions thereof. Let us use the example you refer to in your letter. [The Deputy Director General quoted the example from the Stoll letter.]

As I have indicated, in the cases where a work has fallen into the public domain through the non-compliance with formalities, the "term fixed in the country of origin of the work" should be considered that term which would be applicable provided that the formalities would have been fulfilled (or would not have existed). Therefore, in the case of the example outlined by you the "term fixed in the country of origin of the work" is 95 years from publication, that is, it lasts until 2035. This is the term which should be taken into account by the other countries party to the Berne Convention and/or Members of the WTO when they apply the principle of “comparison of terms" provided for in Article 7(8) of the Berne Convention.

I hope that these informal views will be useful for you. We remain at your disposal for any further clarifications you may wish to have.

Sincerely yours,

Shozo Uemura
Deputy Director General

ii. Exceptions and Limitations

UNITED STATES–SECTION 110(5) OF THE US COPYRIGHT ACT

Report of the Panel (WTO DSB, June 15, 2000), WT/DS160/R

II. FACTUAL ASPECTS

The dispute concerns Section 110(5) of the US Copyright Act of 1976, as amended by the Fairness in Music Licensing Act of 1998 ("the 1998 Amendment"), which entered into force on 26 January 1999. The provisions of Section 110(5) place limitations on the exclusive rights provided to owners of copyright in Section 106 of the Copyright Act in respect of certain performances and displays.

. . .

The relevant parts of the current text of Section 110(5) read as follows:

"§ 110. Limitations on exclusive rights: Exemption of certain performances and displays

Notwithstanding the provisions of section 106, the following are not infringements of copyright:

. . .

(5)(A) except as provided in subparagraph (B), communication of a transmission embodying a performance or display of a work by the public reception of the transmission on a single receiving apparatus of a kind commonly used in private homes, unless –

(A) a direct charge is made to see or hear the transmission; or

(B) the transmission thus received is further transmitted to the public;

(B) communication by an establishment of a transmission or retransmission embodying a performance or display of a nondramatic musical work intended to be received by the general public, originated by a radio or television broadcast station licensed as such by the Federal Communications Commission, or, if an audiovisual transmission, by a cable system or satellite carrier, if—

(i) in the case of an establishment other than a food service or drinking establishment, either the establishment in which the communication occurs has less than 2,000 gross square feet of space (excluding space used for customer parking and for no other purpose), or the establishment in which the communication occurs has 2,000 or more gross square feet of space (excluding space used for customer parking and for no other purpose)

and—

(I) if the performance is by audio means only, the performance is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space; or

(II) if the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4 audiovisual devices, of which not more than 1 audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space;

(ii) in the case of a food service or drinking establishment, either the establishment in which the communication occurs has less than 3,750 gross square feet of space (excluding space used for customer parking and for no other purpose), or the establishment in which the communication occurs has 3,750 gross square feet of space or more (excluding space used for customer parking and for no other purpose) and—

(I) if the performance is by audio means only, the performance is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space; or

(II) if the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4 audiovisual devices, of which not more than one audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space;

(iii) no direct charge is made to see or hear the transmission or retransmission;

(iv) the transmission or retransmission is not further transmitted beyond the establishment where it is received; and
(v) the transmission or retransmission is licensed by the copyright owner of the work so publicly performed or displayed; . . ."[1]

Subparagraph (A) of Section 110(5) essentially reproduces the text of the original "homestyle" exemption contained in Section 110(5) of the Copyright Act of 1976. When Section 110(5) was amended in 1998, the homestyle exemption was moved to a new subparagraph (A) and the words "except as provided in subparagraph (B)" were added to the beginning of the text.

A House Report (1976) accompanying the Copyright Act of 1976 explained that in its original form Section 110(5) "applies to performances and displays of all types of works, and its purpose is to exempt from copyright liability anyone who merely turns on, in a public place, an ordinary radio or television receiving apparatus of a kind commonly sold to members of the public for private use". "The basic rationale of this clause is that the secondary use of the transmission by turning on an ordinary receiver in public is so remote and minimal that no further liability should be imposed." "[The clause] would impose liability where the proprietor has a commercial 'sound system' installed or converts a standard home receiving apparatus (by augmenting it with sophisticated or extensive amplification equipment) into the equivalent of a commercial sound system."[2] A subsequent Conference Report (1976) elaborated on the rationale 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".

The factors to consider in applying the exemption are largely based on the facts of a case decided by the United States Supreme Court immediately prior to the passage of the 1976 Copyright Act. In *Aiken*,[3] the Court held that an owner of a small fast food restaurant was not liable for playing music by means of a radio with outlets to four speakers in the ceiling; the size of the shop was 1,055 square feet (98 m^2), of which 620 square feet (56 m^2) were open to the public. The House Report (1976) describes the factual situation in *Aiken* as representing the "outer limit of the exemption" contained in the original Section 110(5). This exemption became known as the "homestyle" exemption.

As indicated in the first quotation in the preceding paragraph, the homestyle exemption was originally intended to apply to performances of all types of works. However, given that the present subparagraph (B) applies to "a performance or display of a nondramatic musical work", the parties agree, by way of an *a contrario* interpretation, that the effect of the introductory phrase "except as provided in subparagraph (B)", that was added to the text in subparagraph (A), is that it narrows down the application of subparagraph (A) to works other than "nondramatic musical works".

The Panel notes that it is the common understanding of the parties that the expression "nondramatic musical works" in subparagraph (B) excludes from its application the communication of music that is part of an opera, operetta, musical or other similar dramatic work when performed in a dramatic context. All other musical works are covered by that expression, including individual songs taken from dramatic works when performed outside of any dramatic context. Subparagraph (B) would, therefore, apply for example to an individual song taken from a musical and played on the radio. Consequently, the operation of subparagraph (A) is limited to such musical works as are not covered by subparagraph (B), for example a communication of a broadcast of a dramatic rendition of the music written for an opera.[4]

The 1998 Amendment has added a new subparagraph (B) to Section 110(5), to which we, for the sake of brevity, hereinafter refer to as a "business" exemption. It exempts, under certain conditions, communication by an establishment of a transmission or retransmission embodying a performance or display of a nondramatic musical work intended to be received by the general public, originated by a radio or television broadcast station licensed as such by the Federal Communications Commission, or, if an audiovisual transmission, by a cable system or satellite carrier.

The beneficiaries of the business exemption are divided into two categories: establishments other than food service or drinking establishments ("retail establishments"), and food service and drinking establishments. In each category, establishments under a certain size limit are exempted, regardless of the type of equipment they use. The size limits are 2,000 gross square feet (186 m^2) for retail establishments and 3,750 gross square feet (348 m^2) for restaurants.

In its study of November 1995 prepared for the

Senate Judiciary Committee, the Congressional Research Service ("CRS") estimated that 16 per cent of eating establishments, 13.5 per cent of drinking establishments and 18 per cent of retail establishments were below the area of the restaurant ran by Mr. Aiken, i.e. 1,055 square feet. Furthermore, the CRS estimated that 65.2 per cent of eating establishments and 71.8 per cent of drinking establishments would have fallen at that time under a 3,500 square feet limit, and that 27 per cent of retail establishments would have fallen under a 1,500 square feet limit.

In 1999, Dun & Bradstreet, Inc. ("D&B") was requested on behalf of the American Society of Composers, Authors and Publishers (ASCAP) to update the CRS study based on 1998 data and the criteria in the 1998 Amendment. In this study, the D&B estimated that 70 per cent of eating establishments and 73 per cent of drinking establishments fell under the 3,750 square feet limit, and that 45 per cent of retail establishments fell under the 2,000 square feet limit.

The studies conducted by the National Restaurant Association (NRA) concerning its membership indicate that 36 per cent of table service restaurant members (those with sit-down waiter service) and 95 per cent of quick service restaurant members are less than 3,750 square feet.

If the size of an establishment is above the limits referred to . . . above (there is no maximum size), the exemption applies provided that the establishment does not exceed the limits set for the equipment used. The limits on equipment are different as regards, on the one hand, audio performances, and, on the other hand, audiovisual performances and displays. The rules concerning equipment limitations are the same for both retail establishments and restaurants above the respective size limits.

The types of transmissions covered by both subparagraphs (A) and (B) 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.

Section 110(5) does not apply to the use of recorded music, such as CDs or cassette tapes, or to live performances of music.

Holders of copyright in musical works

(composers, lyricists and music publishers) normally entrust the licensing of nondramatic public performance of their works to collective management organizations ("CMOs" or performing rights organizations). The three main CMOs in the United States in this area are ASCAP, the Broadcast Music, Inc. (BMI) and SESAC, Inc. CMOs license the public performance of musical works to users of music, such as retail establishments and restaurants, on behalf of the individual right holders they represent, collect licence fees from such users, and distribute revenues as royalties to the respective right holders. They normally enter into reciprocal arrangements with the CMOs of other countries to license the works of the right holders represented by them. Revenues are distributed to individual right holders through the CMOs that represent the right holders in question. The above-mentioned three US CMOs license nondramatic public performances of musical works, including nondramatic renditions of "dramatic" musical works.

. . .

VI. FINDINGS

A. Claims

As mentioned above, the European Communities alleges that the exemptions provided in subparagraphs (A) and (B) of Section 110(5) of the US Copyright Act are in violation of the United States' obligations under the TRIPS Agreement, and requests the Panel to find that the United States has violated its obligations under Article 9.1 of the TRIPS Agreement together with Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971) and to recommend that the United States bring its domestic legislation into conformity with its obligations under the TRIPS Agreement.

The United States contends that Section 110(5) of the US Copyright Act is fully consistent with its obligations under the TRIPS Agreement, and requests the Panel to find that both subparagraphs (A) and (B) of Section 110(5) of the US Copyright Act meet the standard of Article 13 of the TRIPS Agreement and the substantive obligations of the Berne Convention (1971). Accordingly, the United States requests the Panel to dismiss the claims of the European Communities in this dispute.

. . .

D. Substantive aspects of the dispute

1. General considerations about the exclusive rights concerned and limitations thereto

(a) Exclusive rights implicated by the EC claims

Articles 9–13 of Section 1 of Part II of the TRIPS Agreement entitled "Copyright and Related Rights" deal with the substantive standards of copyright protection. Article 9.1 of the TRIPS Agreement obliges WTO Members to comply with Articles 1–21 of the Berne Convention (1971) (with the exception of Article 6*bis* on moral rights and the rights derived therefrom) and the Appendix thereto. The European Communities alleges that subparagraphs (A) and (B) of Section 110(5) are inconsistent primarily with Article 11*bis*(1)(iii) but also with Article 11(1)(ii) of the Berne Convention (1971) as incorporated into the TRIPS Agreement.

We note that through their incorporation, the substantive rules of the Berne Convention (1971), including the provisions of its Articles 11*bis*(1)(iii) and 11(1)(ii), have become part of the TRIPS Agreement and as provisions of that Agreement have to be read as applying to WTO Members.

(i) Article 11bis of the Berne Convention (1971)

The provision of particular relevance for this dispute is Article 11*bis*(1)(iii). Article 11*bis*(1) provides:

> "Authors of literary and artistic works shall enjoy the exclusive right of authorizing:
> (i) the broadcasting of their works or the communication thereof to the public by any other means of wireless diffusion of signs, sounds or images;
> (ii) any communication to the public by wire or by re-broadcasting of the broadcast of the work, when this communication is made by an organization other than the original one;
> (iii) the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of the work."

In the light of Article 2 of the Berne Convention (1971), "artistic" works in the meaning of Article 11*bis*(1) include nondramatic and other musical works. Each of the subparagraphs of Article 11*bis*(1) confers a separate exclusive right; exploitation of a work in a manner covered by any of these subparagraphs requires an authorization by the right holder. For example, the communication to the public of a broadcast creates an additional audience and the right holder is given control over, and may expect remuneration from, this new public performance of his or her work.

The right provided under subparagraph (i) of Article 11*bis*(1) is to authorize the broadcasting of a work and the communication thereof to the public

by any other means of wireless diffusion of signs, sounds or images. It applies to both radio and television broadcasts. Subparagraph (ii) concerns the subsequent use of this emission; the authors' exclusive right covers any communication to the public by wire or by rebroadcasting of the broadcast of the work, when the communication is made by an organization other than the original one.

Subparagraph (iii) provides an exclusive right to authorize the public communication of the broadcast of the work by loudspeaker, on a television screen, or by other similar means. Such communication involves a new public performance of a work contained in a broadcast, which requires a licence from the right holder.[5] For the purposes of this dispute, the claims raised by the European Communities under Article 11*bis*(1) are limited to subparagraph (iii).

(ii) Article 11 of the Berne Convention (1971)

Of relevance to this dispute are also the exclusive rights conferred by Article 11(1)(ii) of the Berne Convention (1971). Article 11(1) provides:

> "Authors of dramatic, dramatico-musical and musical works shall enjoy the exclusive right of authorizing:
> (i) the public performance of their works, including such public performance by any means or process;
> (ii) any communication to the public of the performance of their works."

As in the case of Article 11*bis*(1) of the Berne Convention (1971), which concerns broadcasting to the public and communication of a broadcast to the public, the exclusive rights conferred by Article 11 cover *public* performance; private performance does not require authorization. Public performance includes performance by any means or process, such as performance by means of recordings (e.g., CDs, cassettes and videos).[6] It also includes communication to the public of a performance of the work. The claims raised by the European Communities under Article 11(1) of the Berne Convention (1971) are limited to its subparagraph (ii).

Regarding the relationship between Articles 11 and 11*bis*, we note that the rights conferred in Article 11(1)(ii) concern the communication to the public of performances of works in general. Article 11*bis*(1)(iii) is a specific rule conferring exclusive rights concerning the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of a work.

As set out . . . above, the European Communities raises claims against Section 110(5) primarily under Article 11*bis*(1)(iii), which covers the communication to the public of a broadcast which has been transmitted at some point by hertzian waves. But the EC claims also relate to Article 11(1)(ii) to the extent that a communication to the public concerns situations where the entire transmission has been by wire.

We share the understanding of the parties that a communication to the public by loudspeaker of a performance of a work transmitted by means other than hertzian waves is covered by the exclusive rights conferred by Article 11(1) of the

Berne Convention (1971).[7] Moreover, we note that both parties consider that it is the third exclusive right under Article 11*bis*(1)(iii) – i.e., the author's right to authorize the public communication of a broadcast of a work by loudspeaker or any other analogous instrument – which is primarily concerned in this dispute. But we also note that there is no disagreement between the parties that both subparagraphs (A) and (B) of Section 110(5) implicate both Articles 11*bis*(1)(iii) and 11(1)(ii) – albeit to a varying extent.

Both provisions, i.e., Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971) are implicated only if there is a *public* element to the broadcasting or communication operation. We note that it is undisputed between the parties that playing radio or television music by establishments covered by Section 110(5) involves a communication that is available to the *public* in the sense of Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971). We share this view of the parties.

As noted above, the United States acknowledges that subparagraphs (A) and (B) of Section 110(5) implicate Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971). Consequently, the core question before this Panel is which of the exceptions under the TRIPS Agreement invoked are relevant to this dispute and whether the conditions for their invocation are met so as to justify the exemptions under subparagraphs (A) and (B) of Section 110(5) of the US Copyright Act.

(b) Limitations and exceptions

(i) Introduction

A major issue in this dispute is the interpretation and application to the facts of this case of Article 13 of the TRIPS Agreement. . .

Article 13 of the TRIPS Agreement, entitled "Limitations and Exceptions", is the general exception clause applicable to exclusive rights of the holders of copyright. It provides:

> "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."
> . . .

(ii) Summary of the arguments raised by the parties

The United States submits that the TRIPS Agreement, incorporating the substantive provisions of the Berne Convention (1971), allows Members to place minor limitations on the exclusive rights of copyright owners. Article 13 of the TRIPS Agreement provides the standard by which to judge the appropriateness of such limitations or exceptions. The exemptions embodied in Section 110(5) fall within the Article 13 standard.

The principal EC argument concerning Article 13 is that it only applies to exclusive rights newly introduced under the TRIPS Agreement and that the rights

conferred under Articles 1–21 of the Berne Convention (1971) as incorporated into the TRIPS Agreement can be derogated from only on the grounds of pre-existing exceptions applicable under the Berne Convention (1971). In the EC view, its position is supported by Article 2.2 of the TRIPS Agreement and Article 20 of the Berne Convention (1971), which it interprets as a prohibition on any derogation from existing standards of protection under the Berne Convention (1971).

In the US view, Article 13 applies to all copyright-related provisions of the TRIPS Agreement, including the articles of the Berne Convention (1971) incorporated into it. As far as Articles 11*bis*(1) and 11(1) of the Berne Convention (1971) as incorporated into the TRIPS Agreement are concerned, the US view is that Article 13 clarifies and articulates the scope of the so-called "minor exceptions" doctrine, which applies to the exclusive rights provided under those Articles. Thus, the United States argues that Article 13 provides the standard by which the permissibility of limitations or "minor exceptions" from exclusive rights in question has to be judged.

In the alternative to its argument referred to in paragraph 6.34 above, the European Communities contends that even if Article 13 of the TRIPS Agreement was considered to be applicable to the exclusive rights provided under the Berne provisions incorporated into the TRIPS Agreement, its role would be to confine the scope of the pre-existing limitations and exceptions provided in those Berne provisions. The European Communities concedes that the minor exceptions doctrine has been referred to in the discussions during the diplomatic conferences for the revision of the Berne Convention held in Brussels in 1948 and Stockholm in 1967, but considers its precise scope and legal status under the Berne Convention as unclear. In its view, the scope of limitations allowed under the minor exceptions doctrine is limited to public performance of works for religious ceremonies, military bands and the needs of child and adult education. It adds that such uses are characterized by their non-commercial character. The European Communities also argues that the minor exceptions doctrine was intended to "grandfather" only pre-existing exceptions that existed in national legislation prior to the Stockholm Diplomatic Conference of 1967, regardless of when a particular country acceded to the Berne Convention.

The United States submits that the minor exceptions doctrine constitutes a subsequent practice of the Berne Union members in the meaning of Article 31(3)(b) of the Vienna Convention on the Law of Treaties ("Vienna Convention"). In the US view, it is not limited to the specific examples mentioned in the reports of the Brussels and Stockholm diplomatic conferences. There is no requirement that exempt uses be non-commercial. Moreover, the minor exceptions doctrine is not limited to pre-existing exceptions in force prior to 1967 or any other date.

. . .

(iii) The minor exceptions doctrine

As we noted above, the US view is that Article 13 of the TRIPS Agreement clarifies and articulates the scope of the minor exceptions doctrine, which is applicable under the TRIPS Agreement. Before considering the applicability of Article 13 to Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne

Convention (1971) as incorporated into the TRIPS Agreement, we will first examine whether the minor exceptions doctrine applies under the TRIPS Agreement. This examination involves a two-step analysis. As the first step, we analyse to what extent this doctrine forms part of the Berne Convention *acquis*; in doing so, we will also consider the different views of the parties as to the scope of the doctrine. The second step is to analyse whether that doctrine, if we were to find that it applies under certain Articles of the Berne Convention (1971), has been incorporated into the TRIPS Agreement, by virtue of Article 9.1 of that Agreement, together with Articles 1–21 of the Berne Convention (1971).

. . .

The legal status of the minor exceptions doctrine under the Berne Convention

We will now apply these fundamental rules of interpretation to the provisions of the Berne Convention (1971) within our terms of reference, with a view to ascertaining the legal status of the minor exceptions doctrine in relation to Articles 11*bis*(1) and 11(1) of that Convention.

We note that, in addition to the explicit provisions on permissible limitations and exceptions to the exclusive rights embodied in the text of the Berne Convention (1971), the reports of successive revision conferences of that Convention refer to "implied exceptions" allowing member countries to provide limitations and exceptions to certain rights. The so-called "minor reservations" or "minor exceptions" doctrine is being referred to in respect of the right of public performance and certain other exclusive rights.[8] Under that doctrine, Berne Union members may provide minor exceptions to the rights provided, *inter alia*, under Articles 11*bis* and 11 of the Berne Convention (1971).

. . .

With respect to public performance of works, until 1948 only a national treatment obligation was provided for under the Berne Convention. Subparagraphs (i) and (ii) of Article 11 of that Convention originated in the Brussels Act of 1948. Their wording remained essentially unchanged in the Stockholm Act of 1967 and the Paris Act of 1971. No specific exception clause applicable to this right was added to the text of the Convention. However, when the general right of public performance was embodied for the first time in Article 11 of the Brussels Act, a statement was included in the General Report of the Brussels Conference referring to the minor exceptions doctrine.

The provisions currently contained in Article 11*bis*(1)(i) and 11*bis*(2) were first introduced into the Berne Convention at the Rome Conference of 1928, but subsequently modified. Subparagraphs (ii) and (iii) of Article 11*bis*(1) were added to the Convention at the Brussels Conference of 1948. In discussing subparagraphs (ii) and (iii) of Article 11*bis*(1), the General Report of the Brussels Conference states that the minor exceptions doctrine applies also to the exclusive rights under Article 11*bis*.

More specifically, it was proposed at the Brussels Conference of 1948 that a general provision be inserted into the Berne Convention under which it would be permissible for States parties to the Convention to retain various minor exceptions that already existed in their national laws. However, the proposal was not adopted

by the Conference due to a concern that such a general provision could encourage the widening of existing minor exceptions or the introduction of additional minor exceptions in national laws. But the Conference did not question the very existence and maintenance of minor exceptions in national laws as such. In the context of the discussions on Article 11, it was agreed that rather than dealing with this matter in the text of the Convention itself, a statement concerning the possibility to provide minor exceptions in national law would be included into the General Report.[9]

When ascertaining the legal status of the minor exceptions doctrine, it is important to note that the General Report states that the Rapporteur-General had been "*entrusted with making an express mention* of the possibility available to national legislation to make what is commonly called minor reservations".[10] We believe that the choice of these words reflects an agreement within the meaning of Article 31(2)(a) of the Vienna Convention between the Berne Union members at the Brussels Conference to retain the possibility of providing minor exceptions in national law. We arrive at this conclusion for the following reasons. First, the introduction of Articles 11*bis*(1)(iii) and 11(1)(ii) occurred simultaneously with the adoption of the General Report expressly mentioning the minor exceptions doctrine. Second, this doctrine is closely related to the substance of the amendment of the Berne Convention in that it limits the scope of the exclusive rights introduced by Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention. Third, an "agreement" between all the parties exists because, on the one hand, the Rapporteur-General is being "entrusted to expressly mention" minor exceptions and, on the other hand, the General Report of the Brussels Conference reflecting this express mentioning was formally adopted by the Berne Union members. We therefore conclude that an agreement within the meaning of Article 31(2)(a) of the Vienna Convention between all the parties on the possibility to provide minor exceptions was made in connection with the conclusion of a revision of the Convention introducing additional exclusive rights, including those contained in Articles 11*bis*(1)(iii) and 11(1)(ii), to which these limitations were to apply, and that this agreement is relevant as context for interpreting these Articles.[11]

As pointed out above, the wording of Articles 11*bis* and 11 remained essentially the same at the Diplomatic Conferences in Stockholm (1967) and Paris (1971) where the General Reports were also formally adopted by the Berne Union members. The reports of the Stockholm Conference reconfirm our conclusion concerning the existence of an agreement on minor exceptions. The report of the Main Committee I[12] refers to the existence of an agreement between the Berne Union members that minor exceptions are permitted, *inter alia*, in respect of Articles 11 and 11*bis* of the Berne Convention.

Furthermore, we recall that Article 31(3) of the Vienna Convention provides that together with the context (a) any subsequent agreement, (b) subsequent practice, or (c) any relevant rules of international law applicable between the parties, shall be taken into account for the purposes of interpretation. We note that the parties and third parties have brought to our attention several examples from various countries of limitations in national laws based on the minor exceptions doctrine.[13] In our view, state practice as reflected in the national copyright laws of Berne Union members before and after 1948, 1967 and 1971, as well as of WTO Members before and after the date that the TRIPS Agreement

became applicable to them, confirms our conclusion about the minor exceptions doctrine.

The scope of the minor exceptions doctrine

Apart from the legal status of the minor exceptions doctrine under the Berne Convention, the parties disagree also on the scope of the doctrine. . . .

The General Report of the Brussels Conference of 1948 refers to "religious ceremonies, military bands and the needs of the child and adult education" as examples of situations in respect of which minor exceptions may be provided. The Main Committee I Report of the Stockholm Conference of 1967 refers also to "popularization" as one example. When these references are read in their proper context, it is evident that the given examples are of an illustrative character.[14] We also note that the examples given in the reports of the Brussels and Stockholm Conferences are not identical. Furthermore, the examples are given in the context of Article 11(1) of the Berne Convention, but the reports clarify that minor exceptions can also be provided to the exclusive rights conferred under Articles 11*bis*, 11*ter*, 13 and 14, without giving any specific examples. It is also evident that existing minor exceptions vary between different countries. The information presented to us on state practice in respect of minor exceptions in different countries is illustrative of that fact. Furthermore, the academic literature supports the view that these examples of uses in respect of which minor exceptions could be provided are not intended to be exhaustive.[15]

We note that some of the above-mentioned examples (e.g., religious ceremonies, military bands) typically involve minimal uses which are not carried out for profit. With respect to other examples (e.g., adult and child education and popularization), however an exclusively non-commercial nature of potentially exempted uses is less clear. On the basis of the information provided to us, we are not in a position to determine that the minor exceptions doctrine justifies only exclusively non-commercial use of works and that it may under no circumstances justify exceptions to uses with a more than negligible economic impact on copyright holders. On the other hand, non-commercial uses of works, e.g., in adult and child education, may reach a level that has a major economic impact on the right holder. At any rate, in our view, a non-commercial character of the use in question is not determinative provided that the exception contained in national law is indeed *minor*.[16]

As regards the coverage of the minor exceptions doctrine in temporal respect, we cannot share the European Communities' view that the coverage was "frozen" in 1967.[17] In our view, the use of the term "*maintain*" in the Stockholm records[18] is not sufficient evidence to substantiate the interpretation that countries could justify under the minor exceptions doctrine only those limitations which were in force in their national legislation prior to the year when that Conference was held.

The legal status of the minor exceptions doctrine under the TRIPS Agreement

. . . Th[e] second step [of our analysis] deals with the question whether or not the minor exceptions doctrine has been incorporated into 0the TRIPS

Agreement, by virtue of its Article 9.1, together with Articles 1-21 of the Berne Convention (1971) as part of the Berne *acquis*.

We note that the express wording of Article 9.1 of the TRIPS Agreement neither establishes nor excludes such incorporation into the Agreement of the minor exceptions doctrine as it applies to Articles 11, 11*bis*, 11*ter*, 13 and 14 of the Berne Convention (1971).[19]

We have shown above that the minor exceptions doctrine forms part of the context, within the meaning of Article 31(2)(a) of the Vienna Convention, of at least Articles 11 and 11*bis* of the Berne Convention (1971). There is no indication in the wording of the TRIPS Agreement that Articles 11 and 11*bis* have been incorporated into the TRIPS Agreement by its Article 9.1 without bringing with them the possibility of providing minor exceptions to the respective exclusive rights. If that incorporation should have covered only the text of Articles 1–21 of the Berne Convention (1971), but not the entire Berne *acquis* relating to these articles, Article 9.1 of the TRIPS Agreement would have explicitly so provided.[20]

Thus we conclude that, in the absence of any express exclusion in Article 9.1 of the TRIPS Agreement, the incorporation of Articles 11 and 11*bis* of the Berne Convention (1971) into the Agreement includes the entire *acquis* of these provisions, including the possibility of providing minor exceptions to the respective exclusive rights.

We find confirmation of our interpretation in certain references to the minor exceptions doctrine in the documentation from the GATT Uruguay Round negotiations on the TRIPS Agreement.[21] A TRIPS Negotiating Group document[22] reproduces a document that was prepared by the International Bureau of the WIPO following a decision taken by the Negotiating Group, on 3 March 1988, inviting the Bureau "to prepare a factual document to facilitate an understanding of the existence, scope and form of generally internationally accepted and applied standards/norms for the protection of intellectual property".[23] The Section on the "Scope of Rights" contains the following text on the minor exceptions doctrine:

> In addition to the limitations explicitly mentioned in the text of the Convention, there is one more possibility for certain exceptions about which there was express agreement at various revision conferences, namely the possibility of minor exceptions to the right of public performance (a concept which is close to the notion of 'fair use' or 'fair dealing'; see item (iii), below).

Another TRIPS Negotiating Group document[24] mentions the minor exceptions doctrine as forming part of existing international standards. We are not aware of any record in the Uruguay Round documentation of any country participating in the negotiations challenging or questioning the minor exceptions doctrine being part of the Berne *acquis* on which the TRIPS Agreement was to be built.[25]

In the area of copyright, the Berne Convention and the TRIPS Agreement form the overall framework for multilateral protection. Most WTO Members are also parties to the Berne Convention. We recall that it is a general principle of interpretation to adopt the meaning that reconciles the texts of different treaties and avoids a conflict between them. Accordingly, one should avoid interpreting

the TRIPS Agreement to mean something different than the Berne Convention except where this is explicitly provided for. This principle is in conformity with the public international law presumption against conflicts, which has been applied by WTO panels and the Appellate Body in a number of cases. [The Panel cited a number of cases not involving intellectual property rights]. We believe that our interpretation of the legal status of the minor exceptions doctrine under the TRIPS Agreement is consistent with these general principles.

. . .

(iv) The scope of Article 13 of the TRIPS Agreement

. . .

The language used in Article 13 of the TRIPS Agreement has its origins in the similar language used in Article 9(2) of the Berne Convention (1971),[26] although the latter only applies in the case of the reproduction right.[27]

A general right of reproduction was not recognized under the Berne Convention until the Stockholm Act of 1967. The main difficulty in the preparation of this amendment was to find an appropriate formula which would allow exceptions to that right. In adopting the present text of Article 9(2) of the Berne Convention, the Main Committee I of the Stockholm Diplomatic Conference (1967) gave the following guidance on its interpretation:

> The Committee also adopted a proposal by the Drafting Committee that the second condition should be placed before the first, as this would afford a more logical order for the interpretation of the rule. 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 license, 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.[28]

Apart from the difference in the use of the terms "permit" and "confine", the main difference between Article 9(2) of the Berne Convention (1971) and Article 13 of the TRIPS Agreement is that the former applies only to the reproduction right. The wording of Article 13 does not contain an express limitation in terms of the categories of rights under copyright to which it may

apply. It states that limitations or exceptions to exclusive rights can only be made if three conditions are met: (1) the limitations or exceptions are confined to certain special cases; (2) they do not conflict with a normal exploitation of the work; and (3) they do not unreasonably prejudice the legitimate interests of the right holder. As both parties agree, these three conditions apply cumulatively; a limitation or an exception is consistent with Article 13 only if it fulfils each of the three conditions.

[The panel rejected the arguments of the European Communities that (1) TRIPS Article 13 applies only to new rights added by the TRIPS Agreement, and not to preexisting provisions of the Berne Convention incorporated into TRIPS by reference, and (2) that Berne Article 11*bis*(2) requires that any exception to Article 11*bis*(1) provide equitable remuneration to the right holder. The panel concluded, first, that Article 13 is the applicable test for determining the scope of permissible minor exceptions to Berne rights, and, second, that Berne Article 11*bis*(2) was not relevant, as it covers different situations from TRIPS Article 13, involving conditions on the exercise of rights (such as compulsory licenses) rather than exceptions to rights.]

(vi) Summary of limitations and exceptions

In the light of the foregoing analysis, we conclude that the context of Articles 11 and 11*bis* of the Berne Convention (1971) comprises, within the meaning of Article 31(2)(a) of the Vienna Convention, the possibility of providing minor exceptions to the exclusive rights in question. This minor exceptions doctrine has been incorporated into the TRIPS Agreement, by virtue of its Article 9.1, together with these provisions of the Berne Convention (1971). Therefore, the doctrine is relevant as forming part of the context of Articles 11(1)(ii) and 11*bis*(1)(iii) of the Berne Convention (1971) as incorporated into the TRIPS Agreement.

As regards the scope of permissible limitations and exceptions under the minor exceptions doctrine, we conclude that the doctrine is primarily concerned with *de minimis* use, but that otherwise its application is not limited to the examples contained in the reports of the Berne Convention revision conferences held in Brussels and Stockholm, to exclusively non-commercial uses or to exceptions in national legislation that existed prior to 1967. However, we note that the reports of the Brussels and Stockholm Conferences are inconclusive about the precise scope of exceptions that can be provided in national legislation.

We conclude that Article 13 of the TRIPS Agreement applies to Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971) as incorporated into the TRIPS Agreement . . .

. . .

We now proceed to applying the three conditions contained in Article 13 of the TRIPS Agreement to the exemptions contained in Section 110(5) of the US Copyright Act . . .

2. The three criteria test under Article 13 of the TRIPS Agreement

(a) General introduction

Article 13 of the TRIPS Agreement requires that limitations and exceptions to exclusive rights (1) be confined to certain special cases, (2) do not conflict with a normal exploitation of the work, and (3) do not unreasonably prejudice the legitimate interests of the right holder.[29] The principle of effective treaty interpretation requires us to give a distinct meaning to each of the three conditions and to avoid a reading that could reduce any of the conditions to "redundancy or inutility".[30] The three conditions apply on a cumulative basis, 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 13 exception being disallowed. Both parties agree on the cumulative nature of the three conditions. The Panel shares their view. It may be noted at the outset that Article 13 cannot have more than a narrow or limited operation. Its tenor, consistent as it is with the provisions of Article 9(2) of the Berne Convention (1971), discloses that it was not intended to provide for exceptions or limitations except for those of a limited nature. The narrow sphere of its operation will emerge from our discussion and application of its provisions in the paragraphs which follow.

In the following, we will first explore the interpretation of the first condition of Article 13 in general terms in the light of the arguments made by the parties. We will then examine, in turn, subparagraphs (B) and (A) of Section 110(5) of the US Copyright Act of 1976, as amended by the Fairness in Music Licensing Act of 1998, that contain, respectively, the business and homestyle exemptions. We will discuss the business exemption of subparagraph (B) first because most of the arguments raised by the parties focus on it. After that, we will similarly explore the interpretation of the second and third conditions and apply them to subparagraphs (B) and (A) of Section 110(5).

The parties have largely relied on similar factual information in substantiating their legal arguments under each of the three conditions of Article 13. We are called upon to evaluate this information from different angles under the three conditions, which call for different requirements for justifying exceptions or limitations. . . .

. . .

(b) "Certain special cases"

(i) General interpretative analysis

In invoking the exception of Article 13, as an articulation and clarification of the minor exceptions doctrine, the United States claims that both subparagraphs (A) and (B) of Section 110(5) meet the standard of being confined to "certain special cases".

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. In the EC's view, in the case at hand, such significant numbers of establishments are excepted from the duty to pay fees for the use of exclusive rights under subparagraph (A) and (B) of Section 110(5) that the exemptions contained therein constitute a rule rather than an exception.

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".[31] 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".[32] 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 quantitative as well as a qualitative sense. This suggests a narrow scope as well as an exceptional or distinctive objective. To 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".[33] 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.

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".[34] 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.

In the US view, if at all the purpose of an exception is relevant, the first condition only requires that the exception has a specific policy objective, but it does not impose any requirements on the policy objectives that a particular country might consider special in the light of its own history and national priorities. As regards the business exemption, the United States claims that the specific policy objective pursued by this exemption is fostering small businesses and preventing abusive tactics by CMOs.

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. We are not able to fully reconcile the 1995 CRS estimates with those of the NRA because we have not been provided with information on how representative the NRA membership is of all restaurants in the United States, and on the proportion of table-service restaurants in relation to fast-food restaurants among its membership. Therefore, we limit ourselves to stating that the 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.[35] 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. The D&B study of 1999[36] 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.[37]

We note that while the United States does not confirm the figures of the 1999 D&B study, it has used them, for the sake of argument, as a basis for its calculations on possible losses suffered by EC right holders as a result of the subparagraph (B) exemption.

In view of the vagueness of the explanation available to us of the methodology used for the 1999 D&B study, we are not in a position to recalculate exactly the results and trends of this study. But it appears that the results of the 1999 D&B study are largely consistent with the results and trends of the 1995 CRS study.

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 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.

We refer to our discussion concerning the third condition of Article 13, in which context we will examine in more detail the relevance of the US arguments concerning the five types of subtractions that would need to be made from the above percentage figures, and the exemption's likely effects on the licensing of other sources of music.[38] In that context, we will also address the US argument that many establishments were not licensed before the enactment of the business exemption and that many establishments covered by subparagraph (B) would be likely subscribers to the group licensing agreement between the NLBA and the

CMOs.

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*(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.[39] 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.

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.

We recall that in *Twentieth Century Music Corp. v. Aiken*, the Court held that an owner of a small fast food restaurant was not liable for playing music by means of a radio with outlets to four speakers in the ceiling. The size of the shop was 1,055 square feet (98m^2), of which 620 square feet (56m^2) were open to the public. 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.[40] 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.[41] 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.*[42]) 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. The 1995 CRS study found that:

(a) 16 per cent of all US eating establishments;
(b) 13.5 per cent of all US drinking establishments; and
(c) 18 per cent of all US retail establishments

were as big as or smaller than the *Aiken* restaurant (1,055 square feet of total space), and could thus benefit from the homestyle exemption. These figures are not disputed between the parties. The United States expressly confirms these figures as far as eating and drinking establishments are concerned.

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.

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 equipment

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 case" 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. As regards musical works, the currently applicable version of the homestyle exemption is thus understood to apply to the communication of music that is part of an opera, operetta, musical or other similar dramatic work when performed in a dramatic context. All other musical works are covered by the expression "nondramatic" musical works, including individual songs taken from dramatic works when performed outside any dramatic context. Subparagraph (B) would, therefore, apply for example to an individual song taken from a musical and played on the radio. Consequently, given the common view of the parties, the operation of subparagraph (A) is limited to such musical works as are not covered by subparagraph (B), for example a communication of a broadcast of a dramatic rendition of the music written for an opera, operetta, musical or other similar 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.[43]

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 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.

A US Congress House Report explained Section 110(5) of the Copyright Act of 1976: "The basic rationale of this clause is that secondary use of the transmission by turning on an ordinary receiver in public is so remote and minimal that no further liability should be imposed". "[The clause] would impose liability where the proprietor has a commercial 'sound system' installed or converts a standard home receiving apparatus . . . into the equivalent of a commercial sound system." A subsequent Conference Report elaborated on the rationale 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".

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".[44] 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. . .".[45] 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.[46]

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.

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.[47] 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.

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.[48]

. . .

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.

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".[49]

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.*[50] (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.

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.

We note that a consideration of both actual and potential effects when assessing the permissibility of the exemptions would be consistent with similar concepts and interpretation standards as developed in the past GATT/WTO dispute settlement practice. . . . Given that the agreements covered by the WTO form a single, integrated legal system, we deem it appropriate to develop interpretations of the legal protection conferred on intellectual property right holders under the TRIPS Agreement which are not incompatible with the treatment conferred to products under the GATT, or in respect of services and service suppliers under the GATS, in the light of pertinent dispute settlement practice.

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 exemptions 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.[51] 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.[52] 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.[53] 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. Below, we will address separately, whether the homestyle exemption as contained in the amended Section 110(5) conflicts with normal exploitation.

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(1)*bis*(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 United States contended that subparagraph (A) of the amended Section 110(5) does not conflict with the expectation of right holders concerning the normal exploitation of their works. The United States also defended the original homestyle exemption, noting that it was intended to affect only those establishments that were not large enough to justify a subscription to a commercial background music service, and which thus were not likely to enter into a license or have been licensed under the practices at that time. 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.]

The United States argues that the homestyle exemption of 1998 is even less capable of being in conflict with normal exploitation of works because its scope is now limited to works other than nondramatic musical works. While a collective licensing mechanism for nondramatic musical works exists in the United States, there is no such mechanism for "dramatic" musical works and there is little or no direct licensing by individual right holders of the establishments in question. Therefore, in the US view, authors might not reasonably expect to exploit "dramatic" musical works in the normal course of events through licensing public performances or communications thereof to the establishments that may invoke subparagraph (A).

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".[54]

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.[55]

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.[56]

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".[57] 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.

Legitimate interests of right holders of EC, US and third-country origin

We note the EC argument that, in respect of all conditions of Article 13, the effect on all right holders from all WTO Members must be taken into account. For the European Communities, the specific impact on EC right holders is not at issue at this stage of the dispute settlement process, but could become relevant only in the context of Article 22 of the DSU concerning compensation or the suspension of concessions or other obligations equivalent to nullification or impairment suffered. The United States has limited its estimations of the economic impact of subparagraph (B) to the actual losses caused by it to the EC right holders.

This raises the question who may enforce the legitimate interests of right holders of various WTO Members in panel proceedings within the WTO dispute settlement system.[58] . . . . [W]e cannot find any indication in the express wording of the third condition of Article 13 that the assessment of whether the prejudice caused by an exception or limitation to the legitimate interests of the right holder is of an unreasonable level should be limited to the right holders of the Member that brings forth the complaint. For such a limitation to exist, the third condition of Article 13 would have to refer exclusively to the right holders who are nationals of the complaining party, not to "the right holder" as such.

. . .

[G]iven our considerations above, our assessment of whether the prejudice, caused by the exemptions contained in Section 110(5), to the legitimate

interests of the right holder is of an unreasonable level is not limited to the right holders of the European Communities.

Summary of the general interpretative analysis

We will now examine subparagraphs (B) and (A) of Section 110(5) in the light of these general considerations. What is at stake in our examination of the third condition of Article 13 of the TRIPS Agreement is whether the prejudice caused by the exemptions to the legitimate interests of the right holder is of an unreasonable level. We will consider the information on market conditions provided by the parties taking into account, to the extent feasible, the actual as well as the potential prejudice caused by the exemptions, as a prerequisite for determining whether the extent or degree of prejudice is of an unreasonable level.
. . .

(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.

We examine the relevance of these factors, beginning with the first, second and the fifth factors, and then the third and fourth factors. . .

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 long-standing 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.[59]

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 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.

In addition, the United States indicates a number of reasons why it considers that its five-step calculation is conservative. It assumes that 30.5 per cent of the licensing revenue is attributable to radio-playing, because 30.5 per cent of establishments play the radio, although these establishments might play music from multiple sources. Furthermore, the United States assumes that the 65.5 per cent of restaurants and the 45 per cent of retail establishments that meet the square footage limits account for 65 per cent or 45 per cent of the losses to right holders; but it adds that the small establishments that qualify for the exemptions are likely to represent a smaller proportion of the licensing revenue. The United States does not argue that these considerations would change the outcome of its estimation to an essential degree.

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.

We recall that the ultimate burden of proof concerning whether all of the conditions of Article 13 are met lies with the United States as the Member invoking the exception. 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. The House Report (1976) noted that "[the clause] would impose liability where the proprietor has a commercial 'sound system' installed or converts a standard home receiving apparatus (by augmenting it with sophisticated or extensive amplification equipment) into the equivalent of a commercial sound system." In this respect, we refer to our discussion on permissible equipment as well as the applicability of the exemption to Internet transmissions in connection with the first and second conditions of Article 13.

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.

4. Treatment of Foreigners

a. National Treatment

S.M. Stewart, INTERNATIONAL COPYRIGHT AND NEIGHBOURING RIGHTS 37-43 (2d ed. 1989)

(a) General

Seeking to apply the general principles of private international law to a multinational copyright treaty, theoretically two of the principles would appear to be suitable: the lex loci and the lex fori. The adaptation of the principle of lex loci (or lex originis) leads to the principle of country of origin of the work. This means treating a work like a person and saying that its nationality is either that of its father (the author) at the time of its birth, which would be the time of its creation if it remains unpublished or the time of its first publication, if published. Alternatively it would be the nationality of its birthplace, that is the country of its first publication. Like a person the work would then, so to speak, have a passport and take its nationality with it wherever it goes. For example, if Nigeria is a convention country, the work of a Nigerian author, first published in Nigeria, would have in the United Kingdom or France the same rights as it has in Nigeria.

The adaptation of the principle of lex fori to copyright leads (not necessarily but in practice) to the principle of national treatment, or as it is sometimes called, the principle of assimilation. This means that persons protected by the convention can claim in all contracting states the protectino that the law of that state grants to its own nationals. Foreigners, if belonging to a convention country are 'assimilated' to nationals.

The work of the same Nigerian author, published in Nigeria, would have in the United Kingdom the same rights as if it were created by a United Kingdom author and first published in the United Kingdom.

It will be seen that the advantage of adapting the first principle, would be that the same work will receive the same treatment in all member countries. The disadvantage is that lawyers and courts will continuously have to apply a large number of foreign laws, sometimes several laws in the same transaction or court case.

The advantage of the second principle, the lex fori, is that courts will always apply their own law. The disadvantage is that the same work will get varying levels of protection in convention countries according to the national law of the country where the protection is claimed.

(b) National treatment (assimilation)

In practice, the second principle, that of national treatment, has proved to be the only viable one. This is so mainly for two reasons, one psychological and the other political. The psychological reason is that courts prefer to apply their own law which they know, to having to apply foreign law which they do not know, and the quality of judgments will be better and the law therefore more certain under the principle of national treatment. The political reason is that right owners in countries of low level protection will realise that they get better treatment abroad in high level protection countries than they get at home and will bring pressure to bear on their governments to raise the level of protection at home. Thus, as the high level protection countries give a lead, the level of protection will gradually rise everywhere, thus getting nearer to the ideal of uniform treatment but on a high level.

National treatment is also in accord with the idea of international law that all men are equal before the law, regardless of whether they are nationals or foreigners, and in a period of history when more and more eminent authors and creators are expatriates or refugees, conventions have also assimilated these to nationals so that they enjoy the same privileges in the country of their choice. The principle of national treatment also means that both the question of whether the right exists and the question of the scope of the rights are to be answered in accordance with the law of the country where the protection is claimed . . .

For these reasons the principle of national treatment was adopted as the basic principle of the Berne Convention in 1886 and of the copyright and neighbouring rights conventions which followed the Berne Convention. . .

(c) Extensions of the principle of national treatment

(1) 'Minimum rights'

The principle of national treatment is extended in the copyright conventions by providing minimum rights. . . In a strictly conceptual sense, these minima are not rules relating to conflict of laws as they contain no reference to another legal system. They also do not compel a convention country to grant these conventional rights provided as minimum rights to its own nationals because

the convention deals only with international situations and therefore, if nothing else is provided in the convention, only compel a state to grant these rights to foreigners who are nationals of member states. However, the principle of national treatment without minimum rights, jure conventionis might produce a serious imbalance which states would find unacceptable. If countries A and B were members of a convention which provides only for national treatment and has no minimum rights and country A grants performance and broadcasting rights as well as a reproduction right, whereas country B grants only a reproduction right, the effect would be that the nationals of country B would enjoy performance and broadcasting rights in country A, but nationals of country A would not enjoy these rights in country B because the nationals of country B do not enjoy them either. This could produce a serious disequilibrium which would be unacceptable to country A.

The history of copyright and neighbouring rights conventions bears this out. The Berne Convention which was agreed at a time when the level of protection granted to authors still varied greatly from country to country started with only a minimum term and a translation right jure conventionis. The first task was to get as many countries as possible to accept these "Minimum Rights' in their legislation which they had to do before they could ratify the convention. Having thus created a common minimum level of protection in these respects the Revision Conferences added further minimum rights. The high level protection countries gave a lead to the lower level protection countries and it was hoped that the right owners of the lower level protection countries enjoying rights abroad which they did not have at home would bring pressure to bear on their governments to introduce them. These hopes proved amply justified.

When the Universal Copyright Convention was negotiated over 60 years later, the difference in the level of protection with regard to the rights covered by the convention had become less marked, and thus less stringent measures to insure against unacceptable differences in the level of protection were required. The term of 25 years 'post mortem auctoris' and the translation right are minimum rights, whereas article I requiring contracting states 'to adopt . . . such measures as are necessary to ensure the application of the convention' are only general guidelines. However this was considered enough to ensure that differences of levels of protection under the national treatment rule were not too great.

In the Rome Convention, the first neighbouring rights convention, the principle of national treatment is accompanied by minimum rights for each of the three beneficiaries: a right against unauthorised fixation for performers, a reproduction right for phonogram producers and broadcasters, a performance right in phonograms (subject to reservations) for producers and performers. If reservations are made the reciprocity rule can be applied to the states making a reservation. Thus, the principle of national treatment combined with minimum rights to assure a common denominator is moderated by the reciprocity rule to avoid injustices being caused by large divergences of levels of protection.

. . .

(d) Limitations of the principle of national treatment

(1) Reciprocity

The principle of national treatment can be limited, sometimes severely limited, by the rule of reciprocity. The 'raison d'être' of reciprocity is: 'Manus lavat manum'. State A wants its citizens protected in State B and thus offered to protect the citizens of State B in return. Reciprocity in international law can be either 'material' (or 'substantive') reciprocity or 'formal' (or 'partial') reciprocity.

Material reciprocity means that country A will protect the citizens of country B in the same manner as country B protects the citizens of country A. As a general rule the copyright conventions are opposed to material reciprocity although there are exceptions.[60] This is made plain in the 'Declaration Against Material Reciprocity' which is included in the Report of the 1971 Paris Revision Convention. One of the advantages of avoiding material reciprocity in copyright conventions is that the courts of member states do not have to interpret the laws of other member states to see whether protection is given in respect of a particular right. The rule of national treatment enables them instead to apply their own law to foreigners. A disadvantage is that it permits sometimes great disparities between the effective levels of protection so that the citizens of high level protection countries get less rights in some convention countries than they enjoy at home, whereas the citizens of low protection countries get better protection in some convention countries than they get at home. However this is balanced by the advantage that wide ranging copyright relations are facilitated between countries of differing ideologies and differing stages of economic development.

Formal reciprocity (or partial reciprocity) in copyright conventions means that each member state will protect the works or citizens of other member states in some manner but from such reciprocity nothing is to be implied with regard to the nature of the protection. That is generally determined by the rule of national treatment.

The 'comparison of terms' under [Article 7(8) of] the Berne Convention is an example. The term of protection is dealt with in the conventions by laying down a minimum term: 50 years post mortem auctoris, but countries are free to grant a longer term. Comparison of terms means that a country which grants a longer term than 50 years to its nationals needs only grant that longer term to foreigners if that term is also granted by their country of origin. For example the Federal Republic of Germany gives 70 years pma, but Germany needs only give 50 years pma to United Kingdom right owners because that is the term of their own national law. It does not have to give the full 70 years it gives to its own nationals.

(2) Reservations

The rights granted by conventions can also be limited by reservations, which give countries the opportunity to ratify the convention but to withhold the giving of some rights wholly or partly. Some conventions, eg the Phonogram Convention, permit no reservations, others, eg the Rome Convention, provide for several. The reservations can relate to the scope of a right or to the connecting factor, eg the reservations regarding the points of attachment in the Rome Convention,[61] or to a whole right, eg the performance right in phonograms in the same convention.[62] The making of reservations is usually accompanied by the application of the rule of reciprocity so that the nationals of country A which has

made the reservation can be deprived of the exercise of those rights in country B because the nationals of country B are not granted those rights in country A.

(e) Challenges to the principle of national treatment

Thus the principle of national treatment subject to extensions and limitations has proved itself as the fundamental principle of copyright and neighbouring rights conventions for nearly a century. It is however at present in danger of being undermined as governments try to cope with the rapid development of technology and communications. When a new right is being granted to copyright owners governments have the option of granting it in the course of copyright revision and as a copyright, or of granting it as a new right in a separate law outside the copyright law. If the government decides to grant the new right as a copyright, the international conventions apply and the principle of national treatment may demand that foreigner who are nationals of convention countries which have not yet granted the new right have to be given the same right and thus become entitled to remuneration which flows from it. If on the other hand the government decides to create the new right outside the copyright law the conventions will not apply and foreigners will not be entitled to national treatment and therefore will not be entitled to participate in any remuneration for the use of the new right. Two practical examples will illustrate the position.

(1) *Public lending right*

This right has been introduced in several countries under which authors of literary works receive a royalty when their books are being borrowed from a library by members of the public. In the Federal Republic of Germany this right is granted in the Copyright Law and therefore, as Germany is a member of the Berne Convention and of the Universal Copyright Convention, foreigners who are nationals of convention countries are entitled to remuneration if their books are borrowed. On the other hand the Scandinavian countries[63] the United Kingdom,[64] which also give a public lending right, have chosen to do so by separate legislation outside the copyright laws and are therefore not bound to grant the right to foreigners, although, like Germany, they are also members of both conventions and the remuneration paid for the lending right is therefore limited to works of national authors.

(2) *Reprography*

This is the production of copies of printed matter by copying machines. One way of dealing with such copies produced for commercial purposes is to subject the reproduction right in respect of such copies to a compulsory license and give the author a right to equitable remuneration as in the Federal Republic of Germany.[65] On the other hand France introduced a tax on the sale and importation of all machines producing reprographic copies in its Finance Act 1976. Part of the revenue of this tax is paid to the copyright owners of the material copied, but it is paid only to French copyright owners although France is a party to both copyright conventions. The principle of national treatment does not apply as the

compensation does not arise from a copyright and foreigners are thus not compensated.

The distinction between the two examples is that the reproduction right is generally recognised in all copyright laws and is a fundamental right of both international conventions and unauthorised copying is only permissible as an exception (eg for private use), whereas a public lending right, far from being universally acknowledged, only exists in a few countries and does not form part of the jus conventionis of any of the international conventions. Thus, on grounds of natural justice and applying the principle of national treatment to a generally accepted right, the claim of foreigners who are convention nationals to compensation for reprographic use of their works is strong. In the case of the public lending right it is, so far, still weak whilst only few countries grant it.

Another distinction is that in the case of the reprographic right in the United States the royalty will be paid by the user, which is a characteristic of all copyrights, whereas the compensation (it is not termed a royalty) in the case of the public lending right in Scandinavia and in the United Kingdom is paid out of a public fund. That means that it comes from taxpayers' money as opposed to copyright users' money.

Thus by the simple device of calling the right to compensation something other than a copyright and introducing it by a separate piece of legislation[66] the application of the principle of national treatment can be avoided. Particularly in cases where the compensation is paid out of a government fund which can be called taxpayers' money, the temptation to restrict it to nationals is considerable. If that device is generally used by governments when dealing with the new uses of copyright material arising from new technology and new means of communication, the fundamental principle of national treatment and with it the copyright conventions based on it, could be seriously eroded in the near future.

NOTE

Many of the differences identified in the examples given above no longer exist, or not to the same extent. This is the result of the harmonization efforts of the European Communities, described below.

———————————

BERNE CONVENTION, Article 5

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

(2) The enjoyment and exercise of these rights . . . shall be independent of the existence of protection in the country of origin of the work. Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.

ROME CONVENTION, Article 2

1. For the purposes of this Convention, national treatment shall mean the treatment accorded by the domestic law of the Contracting State in which protection is claimed:

(a) to performers who are its nationals, as regards performances taking place, broadcast, or first fixed, on its territory;

(b) to producers of phonograms who are its nationals, as regards phonograms first fixed or first published on its territory;

(c) to broadcasting organisations which have their headquarters on its territory, as regards broadcasts transmitted from transmitters situated on its territory.

2. National treatment shall be subject to the protection specifically guaranteed, and the limitations specifically provided for, in this Convention.

TRIPS AGREEMENT, Art. 3(1)

Each Member shall accord to the nationals of other Members treatment no less favourable than it accords to its own nationals with regard to the protection of intellectual property, subject to the exceptions already provided in, respectively, . . . the Berne Convention (1971) [and] the Rome Convention. . . . In respect of performers, producers of phonograms and broadcasting organizations, this obligation only applies in respect of the rights provided under this Agreement. . . .

NOTES AND QUESTIONS

1. The Berne Convention contains two major exceptions from national treatment. One is the so-called "rule of the shorter term" in Article 7(8), which allows countries to provide a shorter term of protection to a foreign work than to domestic works, matching the shorter term of protection provided by the foreign work's country of origin. The other relates to the droit de suite: Article 14*ter*(2) states that this form of protection "may be claimed in a country of the Union only if legislation in the country to which the author belongs so permits . . ." What is the reason for these exceptions? What is the significance of the phrasing of Article 14*ter*(2)? Does it mean that a country cannnot choose to provide the protection of droit de suite to works from another country that does not do so?

2. What is the substantive difference between the Berne and Rome approaches to national treatment? In what circumstances would national treatment be required under Berne, but not under Rome? What is the reason for this difference in approach?

3. National treatment is one of most controversial issues in international copyright law, and is one of the final items to be resolved in almost every treaty negotiation. It has been a particularly contentious point between the United States and the European Communities. Why?

4. Because of the formulation of the national treatment provision in the Berne Convention, it can be important whether a particular legal benefit is called a copyright right (a "right" in a "work") or not. The following excerpt gives a flavor of the debate.

Gunnar W.G. Karnell, THE BERNE CONVENTION BETWEEN AUTHORS' RIGHTS AND COPYRIGHT ECONOMICS—AN INTERNATIONAL DILEMMA
26 I.I.C. 193, 211-13 (1995)

Whether Art. 9 of the [Berne] Convention obliges members to institute systems for remuneration to authors for the private copying of authors' works on sound or audio-visual carriers (tapes, discs, etc.) and—eventually—also related to machinery for such copying, thereby making the principle of national treatment applicable to the distribution of considerable amounts of money internationally, is one of the main copyright issues internationally, and one of great economic importance to the Berne Union members.

Clearly, the text of the Convention does not mention any such obligation. Authors are given an exclusive right of authorising the reproduction of their works in any manner or form (Art. 9(1)); any sound or visual recording is to be considered as a reproduction (Art. 9(3)). Provided that such reproduction does not conflict with the normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author, it shall be a matter for legislation in Union member countries to "permit the reproduction of such works in certain special cases", *i.e.* to institute systems of legal licensing. But there is no obligation to do so, and, if done, it shall be a matter of permission to reproduce. Cassette levies have nothing to do with the users who reproduce—they cannot be accused of infringement if they use a cassette for which no levy has been paid; it is not even sure that the manufacturer, importer or seller of the thing which is used for reproduction lets the levy influence his pricing.

Nevertheless, in some countries, like France and Germany, rules about such remuneration have been introduced into the Copyright Acts and are there considered part of authors' rights, so as to make the Convention rule about national treatment applicable. In other countries, where rules about such remuneration have been introduced, they have not been seen to be covered by the national treatment provision. They can also be found clearly outside any legislation of copyright or authors' rights. In these latter cases, countries have instead shown willingness to apply a rule of material reciprocity, meaning that money collected under the respective national rules, called cassette levy rules or the like, will be distributed only to nationals, to the extent that similar rights are not given in the other country. The issue is . . . under study by the European Commission, and I see no reason to set out more elements of the debate about this very "hot" topic here in any detail.

There is, however, one factor that has considerable economic bearing on the authors' rights aspect of the Berne Convention, as compared to the one more directly related to copyright economics. All right holders suffer the effects of the abundant private copying by the use of sound and audio-visual carriers of protected works. Now, authors may sell their rights for any foreseeable uses, once and for all or in part, of each work of theirs, or else become deprived of sharing in the future revenues from uses of their works. However, under systems for cassette levies and similar arrangements related to reproduction machinery, authors typically remain entitled to money for trade in such goods, notwithstanding what rights may have been disposed of by agreements as mentioned. Money may not

be distributed to them in full; there may be deductions for administrative costs of collecting societies and for national or regional cultural or even social purposes,[67] and they may have to share with others, but at least some part of what is being collected or paid out under the schemes become authors' money individually or collectively as the case may be. To a larger or lesser, but always to some, extent it will be protected as theirs against the market forces surrounding them as individuals.

Levies, as mentioned, provide *supporting measures to the notion of authors' rights*. They do not belong under the principle of national treatment, unless for one reason or another a country finds it opportune to choose that principle instead of the principle of material reciprocity or to let all money stay national. Regional objections may arise to the latest mentioned possibility, for instance within the EEA, and it is not in conformity with the philosophy of a literary or artistic world community to "go unconditionally national". Still, we may have noticed that high principles of cultural ethics play only a relatively discrete role in the world of copyright economics,[68] where the Berne Convention as it stands is quite insufficient for harbouring, by any reasonable interpretation of its text, even such solutions to present-day and future problems as the ones that most parties to the discussion agree upon . . . . In many respects . . . there appears to be reason for doubt whether the Berne Convention is a suitable foundation for balancing the conflicting interests in the market to be. In practice, probably, ever more commercial considerations, related to world trade, will take the upper hand in respects where earlier a traditional approach to the law as a law of authors' rights held out against the economics of copyright.

NOTES AND QUESTIONS

1. In Ferdinand Melichar, *Deductions Made by Collecting Societies for Social and Cultural Purposes in the Light of International Copyright Law,* 22 I.I.C. 47 (1991), cited in the above excerpt, the author examines the practice of music collecting societies in many countries of deducting a portion of their revenues for use for social and cultural purposes, with the benefits of these portions shared with foreign authors only on the basis of reciprocity (see section __ above for a description of these practices). . He concludes that some of these practices are consistent with international treaty obligations and others are not. In particular, he writes that:

> * Deductions for social and cultural purposes from remuneration derived from "traditional rights" may be acceptable—almost as a kind of standard law—as long as these deductions do not exceed 10%.
> * To deal with the new types of exploitation, private copying and massive lending of books, arrangements outside the copyright rule of law are made which do not assign shares of the revenue to individual distribution. There can be no objection to this from a legal point of view under either the Berne Convention or the EEC Treaty, though it is open to question whether this solution is in keeping with the spirit of the international conventions.
> * Schemes which assign individual shares to national authors only are in violation of both the Berne Convention and the EEC Treaty (no

matter how they are described).

* Schemes established by the copyright law which provide for statutory partial deductions for social purposes offer an acceptable compromise which does not contravene any relevant provisions of the Berne Convention; therefore they seem to present the best solution.

Id. at 60.

2. The issue of when national treatment is required with respect to funds that are connected to the use of copyrighted works remains controversial, and is likely to become even more so as more imaginative solutions are found to the enforcement difficulties posed by new technologies. Are you convinced by the above analyses? What are the arguments on both sides, and how would you rule as a member of a WTO dispute resolution panel?

3. In connection with pending negotiations of a possible new WIPO treaty to protect audiovisual performances (see below at __), the United States proposed the following treaty language on national treatment:

(1) Each Contracting Party shall accord to nationals [eligible for protection under the treaty], in respect of the subject matter protected under this Treaty, the protection that it accords its own nationals with respect to:

(i) the exclusive rights provided in this Treaty;

(ii) rights which derive from any exclusive right provided in this Treaty, including but not limited to rights of remuneration; and

(iii) any other rights as to which another Contracting Party provides, under its domestic law, substantially the same level of protection for such subject matter.

(2) Any Contracting Party that, under its domestic law, provides for rights of remuneration or mandatory collective administration of exclusive rights with respect to a performance, fixed or unfixed, protected under this Treaty may provide in a Declaration to the Director General [of WIPO] that it will not provide the benefits of such rights to nationals of another Contracting Party. The Contracting Party making such declaration shall provide in its national law measures that preclude collection for such rights in respect of audiovisual performances by nationals of any other Contracting Party in respect of which such Declaration is made.

What is behind the different clauses of this complex provision?

3. In July, 2000, Deputy U.S. Trade Representative Rita Hayes informed the DSB that the United States would not appeal the finding that the Fairness in Music Licensing Act violated TRIPS. What is the United States required to do to bring itself into compliance with TRIPS? Would anything short of repeal of the business exemption be adequate? Would a return to the pre-1998 version of Section 110(5)–including a return to the older version of the homestyle exemption– be sufficient to ensure compliance?

Jean-François Verstrynge, THE SPRING 1993 HORACE S. MANGES

LECTURE: THE EUROPEAN COMMISSION'S DIRECTION ON COPYRIGHT AND NEIGHBORING RIGHTS: TOWARD THE REGIME OF THE TWENTY-FIRST CENTURY

17 Colum.-VLA J. L. & Arts 187, ___-___ (1993)

National treatment is a very important issue in these ongoing negotiations [of what became the TRIPS Agreement]. Indeed, it might prove to be the key that unlocks all or most other unresolved issues.

National Treatment is the rule in the Berne and Rome Conventions. Reciprocity is the exception. One may ask why this is so, since in most international negotiations -- and in particular in trade negotiations -- reciprocity is the governing principle. In international trade, countries do indeed make concessions to one another only if they obtain some other trade concession in return.

International IPR Conventions such as the Paris Convention of 1883 and the Berne Convention of 1886 were conceived and negotiated more than one century ago when international relations were not always seen as primarily trade-related. Promotion of ideas, science and creativity around the world for their own sake was, rather, the objective at the end of last century. Transportation and telecommunications had not yet internationalized relations to the extent to which they now have. Nobody was talking about the world as a global village yet.

It is in this context that the national treatment rule was introduced in the Berne Convention, essentially to ensure that the effort at harmonization at the international level could not be demolished. This was against the background of a nineteenth-century largely dominated by nationalism and in which foreigners often had little or no rights.

The example of Victor Hugo was given. He did not enjoy protection of his writings in Germany the way he enjoyed them in France. Hence the national treatment rule of the Berne Convention.

The rule of national treatment has fulfilled its function for more than a century. It has largely operated to increase protection of copyright around the world and, combined with the unanimity rule for modifying the Berne Convention, has secured every country against a decrease in protection levels. Seen this way, it is the insurance policy of copyright. It has also been one of the features which has secured the geographic extension of the Berne Convention, which is well on the way to reach 100 parties. It was a very essential element in the decision of the United States to ratify the Berne Convention in 1989.

For all of these very good reasons, national treatment should remain the governing principle, be it in the Berne, the Rome or the Geneva Convention. It is, therefore, also to be applauded in my opinion that national treatment would be extended in the GATT/TRIPS context to cover all the new rights or features of increased protection which could be agreed upon in GATT.

Some exceptions do, however, exist from this rule of national treatment. For the Berne Convention, some rights such as droit de suite, some features of protection, such as the length of the term, and some aspects of geographic scope, such as protection for works published in non-Berne Party Countries, remain, under certain circumstances, subject to reciprocity. In the Rome Convention, a similar situation exists as regards Articles 12 and 16 for the remuneration right for

the broadcasting of music, for example.

What is the common rationale behind these and similar exceptions? In my opinion, they all relate in one way or another to cases in which a higher level of protection could not be secured internationally, despite the fact that it was seen as desirable by a large number of countries participating in the relevant negotiations. Droit de suite was not generally accepted. A longer term than the minimum term of the Berne Convention could not be agreed upon (although it has in this century subsequently been increased to reach at present 50 years post mortem auctoris). Some countries had originally decided not to join the Berne Convention (even if many have since joined it). An agreement on the general rule of Article 12 of the Rome Convention proved impossible in 1961.

Countries were then unwilling to grant national treatment where other countries would be allowed to maintain a lower level of protection. This, however, did not matter as long as subsequent negotiations led to the adoption of revisions which included further agreement on a higher level of protection, which, once agreed upon by most countries, was then again covered by the national treatment rule. The several revisions of the Berne Convention since 1886 prove this point.

However, intensified international trade relations made revisions of this sort increasingly difficult. The Stockholm agreement of 1967 could only be solidified in 1971 in Paris. Some features such as Article 9(2) had to be left in very ambiguous language. Since 1971 no further progress has been made. In the GATT/TRIPS context the increase in levels of protection of copyright or neighboring rights will only be possible by concessions in other fields of the Uruguay Round such as agriculture, textiles, or basic products.

Soon national treatment started to have a perverse effect. Since it implied some automatic trade concessions to third countries which exported copyright works in large quantities, it started to prevent rather than enhance increased copyright protection.

For instance, the attempts to increase the protection against home copying are now plagued by this problem. Indeed, legislators around the world started to hesitate to increase the protection against home copying if the net result was to be large payments to third countries. They choose either not to increase protection at all (as did the United Kingdom), to fall back on reciprocity (as did Australia and Denmark), or to find some other legal limitation in order to avoid such payments, as is the case in several other countries.

Reciprocity can therefore be seen as an intermediate stage which allows for an increase in copyright protection in a situation in which general agreement on the increased level of protection cannot be obtained. It also can be an interim leverage for increasing protection in the long run. Once general agreement on an increased level of protection is possible, one can easily and securely return to the rule of national treatment. If droit de suite were more generally accepted -- let's say by most OECD Countries -- I am sure that it would quickly return to national treatment status. If 70 years of protection were more generally accepted, there would be little resistance to apply national treatment to it. The same applies to Article 12 of the Rome Convention. If international agreement could be reached on the increased protection of home copying, reciprocity might soon disappear. The obstacle is not so much resistance to national treatment, but refusal to

increase protection.

The problem is indeed that no such agreement could be reached so far, neither in GATT/TRIPS, nor in WIPO. Hence, the issue of national treatment on such possible increases in the level of protection has also been disputed.

The problem is made worse when some countries which are large exporters of copyrighted works refuse at the same time to increase the level of protection domestically while maintaining that they should enjoy revenue from other countries which already have such a higher level of protection through the operation of the national treatment rule. By doing so they only increase the fears of other countries, which then start applying reciprocity and become suspicious against further increases in levels of protection. For the exporting country it soon becomes a self-defeating position. Quite logically and correctly, other countries claim that such a position from the exporting country is politically unacceptable.

Moreover, the interpretation of the national treatment rule of Berne, which is used to try to obtain these payments in foreign countries while maintaining a lower level of protection domestically, is legally quite incorrect. Indeed, the inclusion of the national treatment rule in the original Berne Convention was not and could not be intended to obtain higher levels of protection for foreigners. This would have gone against the predominant preoccupation of the end of the last century, which was focused on securing equal levels of protection for foreigners, not higher ones.

In my opinion, using the argument of national treatment to make claims for higher levels of protection, while maintaining domestically lower levels of protection, will fail. Such claims should, moreover, not be allowed to prevail if the benefit of a better long term overall protection of copyright is to be the international common objective. Indeed, once granted, they would eliminate any incentive for the exporting country to further increase its domestic level of protection.

In my opinion, reciprocity is the only intermediate answer as long as the exporting country does not increase its domestic level of protection.

In this context, reciprocity should not be considered a failure. Indeed, it will soon become evident that the exporting country will change its position by the very fact that revenues from a great number of third countries will outweigh the difficulty in increasing the level of protection domestically. Once this is realized, national treatment can again be considered.

Moreover, the effect of this issue of national treatment is different depending on whether one considers it bilaterally or in a multilateral context. Paradoxically, a multilateral agreement is easier to reach, due to the fact that concessions which have to be made to the exporting country can be balanced by gains from other countries engaged in the multilateral negotiation. Bilaterally, this does not happen.

Accordingly, the road to multilateral agreement for increased levels of protection of copyrighted works covered by national treatment (and what is true for copyright is also true for neighboring rights), has to be opened by an agreement on increased protection before national treatment can be considered and eventually secured. Domestic lobby groups, motivated by short-term interest -- which may even be ill-conceived and self-defeating -- should not be allowed to have their cake and eat it too. If the interests of these lobby groups are to prevail,

the whole copyright community, including the exporting country, will lose out in the end.

NOTES AND QUESTIONS

1. What do you think of Verstrynge's arguments? What arguments could be made on the other side? What political or economic factors might determine a policy maker's approach on either side of the Atlantic?

2. Eligibility for Protection: Connecting Factors

S.M. Stewart, INTERNATIONAL COPYRIGHT AND NEIGHBOURING RIGHTS 43-47 (2d ed. 1989)

On the national level the question whether copyright protection does exist or not is decided by asking first whether the subject matter attracts copyright protection or not. . . . If there is a copyright the second basic question to ask is whether the protection sought is covered by the scope of the right. . . . The third basic question to ask is what term the legislation grants to the work or subject matter in question. . . . . On the international level a further question has to answered: If the work is a foreign work or the author or right owner is a foreigner, what is the criterion for deciding whether the work or the right owner is protected? This is known as the connecting factor ('point de rattachement', 'Anknupfungspunkt'), the factor which connects the work or the author with a particular country. It is usually defined as the country with which there is 'the closest and most real connection'. When considering the possible connecting factors one has to bear in mind that copyright is an intellectual property right. It is a property right in the sense that it is a right erga omnes, thus resembling corporeal property rights, but the subject of that property is incorporeal. That means that although the work appears in the tangible form (corpus mechnicum) of a book, a film, a phonogram in one place, it can be reproduced or performed in lots of other places whilst still remaining the same work. Different criteria from those applied to corporeal property rights have to be found to serve as the relevant factors connecting the work or subject matter of the author or the right owner of the work with one particular country. These factors are:

(a) *Personal status connection of the author* (nationality, habitual residence etc)—referred to as 'the country to which the author (or the maker) of the work belongs'. [Berne Convention, art. 3(2)]
(b) *Geographical connection of the work*—referred to as 'the country of origin'. [Berne Convention, art. 5(4))]
(c) *Geographical connection with the public*—referred to as 'the country of first publication', [Berne Convention, art. 3(1)(b)] the country where the work or subject matter of copyright was first made available to the public.
(d) *The lex fori*—referred to as the 'protecting country', the country where protection is claimed, that is where the use of the work, be it legitimate exploitation or infringement, takes place.

(a) The country to which the author belongs

In accordance with the philosophy of the 'droit d'auteur' that the quintessence of copyright is the progress of the work from the mind of the author to the general public, the personal status connection of the author and the geographical connection of first publication with the public were the essential points of attachment of the first international copyright convention, the Berne Convention. The nature of the personal status connection was defined as nationality, but those persons who have their 'habitual residence' in a country of the Berne Union are 'assimilated' to nationals[69] and the Universal Copyright Convention adopts the same structure using the common law concept of 'domicil' instead of the civil law concept of habitual residence.

In essence habitual residence is a question of fact for the court that tries the case to be judged by the length of time during which the author has lived in a country, whereas the concept of domicil differs from country to country and may depend on where the author ultimately intends to settle rather than where he resides, a matter sometimes more difficult to ascertain.

In more recent times where refugee and stateless authors have become more frequent than they were in the nineteenth century, they too have been assimilated to nationals.[70]

Where the right owner is not a natural person but a legal entity like a corporation or company such as a film producer or a phonogram producer or a broadcasting organisation, the place of its seat or headquarters decides residence or domicil.

In the case of the personal connecting factor the question to which country the author or maker of the work belongs may have to be answered differently at different times as he may change his nationality and even more easily his habitual residence. The relevant date may be the date of the creation of the work in which case different works of the same author may have different connecting factors. It may be his nationality or residence at the time of publication in the case of a published work, or it may be the time when protection is claimed. The Berne Convention is silent on the point. It is, unless the national law provides a solution, a matter for the courts to decide. It is likely that the courts will choose the nationality or residence at the time when protection is claimed for the purely practical reason that it is probably the easiest to ascertain.

(b) The country of origin

At the earliest stages of drafting multilateral treaties the concept of the country of origin of the work was at the center of the scene. The underlying thought was that once a work is created or published it should have the same rights abroad as at home. The principle was tried in the Montevideo Convention 1889. It was not successful as a basic principle of a convention because it leads by definition to situations where different rights attach to similar works, because one originates in a country granting a high level of protection and the other in a country with a low level of protection. The creators of the Berne Convention did not make this mistake and based the convention on the principle of national treatment. However the convention contains a definition of the country of origin[71]

to the effect that for a published work the country of origin shall be the country of first publication and for an unpublished work the country 'to which the author belongs'. Although the Paris Act 1971 still contains a more detailed definition,[72] to the same effect, the importance of this point of attachment seems to have declined with the years and neither the Universal Copyright Convention nor the neighbouring rights conventions contain the concept of country of origin.

It must be remembered that conventions deal only with international situations and therefore protection of nationals in the country of origin itself is regulated by the law of that country. Thus if a national author publishes at home no problem arises. If he publishes abroad the country of first publication takes the place of the country of origin. For unpublished works the country of origin becomes important if a subsequent publication, eg of a translation, takes place abroad.

The main importance of the country of origin today is for measuring the duration of protection. The rule of the comparison of terms[73] provides that although the term of protection is governed by the law of the country where protection is claimed, that term shall not exceed the term fixed in the country of origin of the work, unless the national law provides otherwise. When terms of protection varied widely the comparison of terms was often of crucial importance. It is less so now. However examples are to be found in the relation between countries which give the minimum term of 50 years after the death of the author and countries which give a longer term.

(c) The country of first publication

First publication is an important connecting factor.[74] If a writer writes a book in China (a state [at the time of this article] not a member of any international convention), it is unprotected anywhere else while it is unpublished. If he publishes it in China it is still unprotected anywhere else. If however he publishes it first in the United Kingdom it becomes protected by the Berne Convention or if he publishes it first in the United States it becomes protected by the Universal Copyright Convention. If the only publication within a convention country is an English translation published in the United Kingdom, or in the United States, that translation becomes protected as a separate work, but the original in Chinese still remains unprotected. The result is that anyone can make another English translation (or indeed a French or German one) and publish it in any convention country without the author's permission.[75] The concept of simultaneous publication is of vital importance as a connecting factor because it may considerably enlarge the protection of the work if the work is published in a non-convention country and would otherwise be unprotected. If it is 'simultaneously' published in a convention country this secures its protection.[76] The Berne Convention allows an interval of 30 days between the first and second publication to qualify the second one as a simultaneous publication. So does the Rome Convention for the publication of phonograms.[77] Simultaneous publication is particularly important in cases of works published in the same language (a translation is a new work) in several countries or in the case of musical works or phonograms.[78]

(d) The protecting country

This is shorthand for the country where protection is claimed. As in practice an action is usually brought in the country where the infringement is committed, this usually means the lex fori. However there are exceptions where the infringement is committed in a country other than the one where protection is claimed. It is another question not settled by the convention whether in cases of infringements abroad legal protection based on foreign copyright can be claimed. In the past it has usually been accepted that the principle of territoriality applies and that legal protection before national courts can only be claimed in cases of infringements committed within the country concerned. However as Ulmer points out[79] according to the general rules of private international law 'it seems consistent to expand the rule which may be derived from the conventions into a complete rule of conflict of laws whereby protection of intellectual property rights, irrespective of the country in which the action is brought, is to be governed by the law of the country in whose territory the act of infringement took place (the lex loci delicti)'.

The answer depends on the view taken by the national courts . . . .

BERNE CONVENTION
Article 3. Criteria of Eligibility for Protection

(1) The protection of this Convention shall apply to:

(a) authors who are nationals of one of the countries of the Union, for their work, whether published or not;

(b) authors who are not nationals of one of the countries of the Union, for their works first published in one of those countries, or simultaneously in a country outside the Union and in a country of the Union.

(2) Authors who are not nationals of one of the countries of the Union but who have their habitual residence in one of them shall, for the purposes of this Convention, be assimilated to nationals of that country

. . . .

(4) A work shall be considered as having been published simultaneously in several countries if it has been published in two or more countries within thirty days of its first publication.

ROME CONVENTION
Article 4. Performances Protected

Each Contracting State shall grant national treatment to performers if any of the following conditions is met:

(a) the performance takes place in another Contracting State;

(b) the performance is incorporated in a phonogram which is protected under Article 5 of this Convention;

(c) the performance, not being fixed on a phonogram, is carried by a broadcast which is protected by Article 6 of this Convention.

Article 5. Protected Phonograms

1. Each Contracting State shall grant national treatment to producers of phonograms if any of the following conditions is met:

(a) the producer of the phonogram is a national of another Contracting State (criterion of nationality);

(b) the first fixation of the sound was made in another Contracting State (criterion of fixation);

(c) the phonogram was first published in another Contracting State (criterion of publication).

2. If a phonogram was first published in a non-contracting State but if it was also published, within thirty days of its first publication, in a Contracting State (simultaneous publication), it shall be considered as first published in the Contracting State. . . .

Article 6. Protected Broadcasts

1. Each Contracting State shall grant national treatment to broadcasting organizations if either of the following conditions is met:

(a) the headquarters of the broadcasting organization is situated in another Contracting State;

(b) the broadcast was transmitted from a transmitter situated in another Contracting State. . . . .

TRIPS AGREEMENT, Article 1(3)

Members shall accord the treatment provided for in this Agreement to the nationals of other Members. In respect of the relevant intellectual property right, the nationals of other Members shall be understood as those natural or legal persons that would meet the criteria for eligibility for protection provided for in . . . the Berne Convention (1971) [and] the Rome Convention . . . , were all Members of the WTO members of these Conventions.

NOTES AND QUESTIONS

1. As noted by Stewart, for producers and broadcasters, the Rome Convention provides Contracting States with an option to decline to apply certain of the specified points of attachment, if they deposit a notification to that effect with the Secretary General of the United Nations. *See* arts. 5(3) and 6(2). This is only one of several issues on which Rome permits countries to vary its standard terms, making implementation of this treaty confusingly inconsistent from country to country.

2. As more and more countries become members of Berne and TRIPS,. some of the techniques described in Stewart for obtaining treaty protection are less and less necessary. It should also be noted that the illustrations given reflect the state of international relations and treaty accessions as of 1989—before the intensive developments of the past decade.

BRUCE SPRINGSTEEN AND HIS BAND

Case No. I ZR 205/95 (Federal Supreme Court, April 23, 1998) (Germany)
reported at 31 IIC 107 (2000)

On June 5, 1992, during a world tour, the US performer and singer, Bruce Springsteen, gave a performance in Los Angeles. The first plaintiff, a British national, was the lead guitarist of the accompanying band. The concert was transmitted live by a number of radio broadcasting companies, including a broadcasting company in Los Angeles and companies in Argentina, Brazil, Austria, Paraguay and Uruguay. In November 1992, the first defendant, whose managing director is the second defendant, launched a CD on the German market under the name "Bruce Springsteen – Live Los Angeles June 5, 1992" containing recordings made during the concert on June 5, 1992.

The second plaintiff is the German subsidiary of S. Asserting that the corresponding neighboring rights had been assigned to them, the plaintiffs filed an action against the defendants for infringement of the first plaintiff's neighboring rights . . . .

The defendants requested dismissal of the action.

The district court allowed the claim in full. The defendants contested the decision of the district court . . . .

In a decision on part of the action, the court of appeals denied the plaintiffs' claims for damages for infringement of the first plaintiff's neighboring rights for lack of fault. . . .

From the Opinion:

The decision of the court of appeals cannot be upheld on appeal on the law. Contrary to the opinion of the court of appeals, there can be no doubt that the first plaintiff's neighboring rights were culpably infringed. . . .

. . .

The court of appeals wrongly dismissed the first plaintiff's claim for damages

. . . .

Nevertheless, the court of appeals rightly assumed an unlawful infringement of the neighboring rights to which the first plaintiff is entitled as performer according to German copyright law. . . .

Equally unjustified is the objection of the appellants that the national treatment to the benefit of the plaintiff – irrespective of the effects of the EC-law prohibition on discrimination – derives from the International Convention on the Protection of Performers, Producers of Phonograms and Broadcasting Organizations dated October 26, 1961 – the Rome Convention.

In this connection, the appellants object that the court of appeals denied that there was a jurisdictional basis in Art. 4(c), in conjunction with Art. 6(1), of the Rome Convention. According to this provision, each contracting state grants performing artists national treatment if their performance is not recorded on a phonogram and is transmitted by a radio or television broadcast pursuant to Art. 6 of the Rome Convention.

The appellants point out that the concert in question was transmitted live by broadcasting organizations in a number of contracting states of the Rome

Convention. Even if the performance . . . was only transmitted in one contracting state, the performing artists must be granted national treatment in Germany, irrespective of whether the contested reproduction derived from this transmission. The court of appeals, however, rightly assumed that Art. 4(c) of the Rome Convention only provides national treatment if the performance has been copied from a broadcast pursuant to Art. 6 of the Convention. However, this cannot be assumed in the case at issue.

According to the Rome Convention, performers primarily enjoy national treatment if their performance has taken place in a contracting state [citations omitted]. In addition, the performers are always to be granted national treatment if the performance is fixed on a phonogram or transmitted by a broadcast for which the producers of phonograms can claim protection pursuant to Art. 5 or the broadcasting organization can claim protection according to Art. 6 of the Convention (Art. 4(b) and (c) of the Convention). The purpose of this regulation is to create a system in which a performance fixed on a phonogram is always protected if the producer of the phonogram enjoys protection, and in which a transmitted performance (except for that fixed on a phonogram) is always protected if the broadcasting organization arranging the transmission enjoys protection [citation omitted]. This regulation means that the producers of phonograms or broadcasting organizations whose performance is protected by the Rome Convention are not placed in a better position than the performing artists whose performances are fixed on the protected phonograms or transmitted by the protected broadcast. On the contrary, in such a case, the performing artists also enjoy protection for performances that did not take place in a contracting state. The reference to the protected performance by the producer of the phonogram or the broadcasting organization makes it clear that, unlike for instance the jurisdictional basis of the place of first publication of a work in Art. 3(1)(b) of the RBC [Revised Berne Convention], this is a dependent protection that only covers uses for which the producer of the phonograms or the broadcasting organization could also assert claims [citations omitted]. The national treatment of performing artists in such cases avoids a producer of phonograms or a broadcasting organization being entitled to claim protection while the performing artist whose artistic achievement is fixed on the phonogram or is transmitted in the broadcast remains without protection. A similar linking of the protection of the performing artist to the protection of the producer of phonograms and broadcasting organizations is also to be found in the foreign law provisions of Sec. 125(3) and (4) of the Copyright Act; there, too, the protection of foreign performing artists is tied to the protection of the producers of phonograms and broadcasting organizations, and is restricted to the further use of the sound or visual recording in question or the radio broadcast [citations omitted].

. . .

As the court of appeals rightly assumed, the first plaintiff can, however, claim national treatment pursuant to Art. 7(1) of the EEC Treaty (now Art. 6(1) of the EC Treaty) as a national of a Member State of the European Union. This follows from the *Phil Collins* decision of the Court of Justice of the European Communities [set out below at ___], according to which it is an infringement of the EC law prohibition on discrimination for a Member State to deny an author or a performing artist of another Member State a right of prohibition that it grants to

national authors or performing artists [citations omitted]

U.S. COPYRIGHT ACT

§ 101. Definitions

An "international agreement" is—

(1) the Universal Copyright Convention;
(2) the Geneva Phonograms Convention;
(3) the Berne Convention;
(4) the WTO Agreement;
(5) the WIPO Copyright Treaty;
(6) the WIPO Performances and Phonograms Treaty; and
(7) any other copyright treaty to which the United States is a party.

A "treaty party" is a country or intergovernmental organization other than the United States that is a party to an international agreement.

§ 104. Subject matter of copyright: National origin

(a) UNPUBLISHED WORKS.—The works specified by sections 102 and 103, while unpublished, are subject to protection under this title without regard to the nationality or domicile of the author.

(b) PUBLISHED WORKS.—The works specified by sections 102 and 103, when published, are subject to protection under this title if--

(1) on the date of first publication, one or more of the authors is a national or domiciliary of the United States, or is a national, domiciliary, or sovereign authority of a treaty party, or is a stateless person, wherever that person may be domiciled; or

(2) the work is first published in the United States or in a foreign nation that, on the date of first publication, is a treaty party; or

(3) the work is a sound recording that was first fixed in a treaty party; or

(4) the work is a pictorial, graphic, or sculptural work that is incorporated in a building or other structure, or an architectural work that is embodied in a building and the building or structure is located in the United States or a treaty party; or

(5) the work is first published by the United Nations or any of its specialized agencies, or by the Organization of American States; or

(6) the work comes within the scope of a Presidential proclamation. Whenever the President finds that a particular foreign nation extends, to works by authors who are nationals or domiciliaries of the United States or to works that are first published in the United States, copyright protection on substantially the same basis as that on which the foreign nation extends protection to works of its own nationals and domiciliaries and works first published in that nation, the President, may by proclamation extend protection under this title to works of which one or more of the authors is, on the date of first publication, a national, domiciliary, or sovereign authority of that nation, or which was first published in that nation. The

President may revise, suspend, or revoke any such proclamation or impose any conditions or limitations on protection under a proclamation.

. . .

(d) EFFECT OF PHONOGRAMS TREATIES.—Notwithstanding the provisions of subsection (b), no works other than sound recordings shall be eligible for protection under this title solely by virtue of the adherence of the United States to the Geneva Phonograms Convention or the WIPO Performances and Phonograms Treaty.

NOTES AND QUESTIONS

1. Other countries implement the treaties' eligibility requirements in varying ways, including no limitations at all on the nationality or place of publication of the works that are protected under their laws, affirmative disqualification of works from countries which do not provide protection for their own works (see French Copyright Law Arts. L. 111-4 and 5, and Berne Convention art. 6, permitting such retaliation), or detailed tracking of the relevant provisions of each treaty to which they are members.

2. Section 104 of the U.S. Copyright Act was amended (and the above definitions in section 101 added), in 1998 by the Digital Millennium Copyright Act, in order to implement the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT), discussed below. It is a valuable exercise to compare the pre-amendment version with the current text, and to analyze why the structure of section 104 was changed and the new definitions added. Note that paragraphs (5) and (6) of the definition of "international agreement" do not take effect until entry into force with respect to the United States of the WCT and the WPPT, respectively. WIPO Copyright and Performances and Phonograms Treaties Implementation Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860, 2877. The effective date of paragraph (d) is similarly delayed until entry into force of the WPPT with respect to the United States. *Id.* What is the purpose of this paragraph?

3. How does the U.S. treatment of national eligibility compare to the requirements of Berne and other treaties? What qualifies as an "other copyright treaty to which the United States is a party" under the definition of "international agreement" in section 101? See, e.g., New York Chinese TV Programs, Inc. v. U.E. Enters., Inc., 954 F.2d 847 (2d Cir. 1992) (holding that 1946 Treaty of Friendship, Commerce & Navigation between U.S. and then-Republic of China constituted valid "copyright treaty" between U.S. and Taiwan for purposes of then-existing version of section 104).

D. CURRENT AND FUTURE ISSUES

1. General Outlook

Shira Perlmutter, FUTURE DIRECTIONS IN INTERNATIONAL COPYRIGHT
16 Cardozo Arts & Ent. L. J. 369, 376-82 (1998)

III. AROUND THE CORNER

[W]hat can be expected for international copyright in the short range? A number of issues are on the horizon, with work either completed or scheduled for the near future.

A. *Digital Issues*

Public attention has been devoted lately to the issue of adapting copyright to digital technologies. Individual countries and regions have begun to study this issue over the past few years. So far, the conclusion has been that existing copyright laws are generally adequate to the task, and need minor revisions rather than major overhauls.

On the international level, discussion has centered on the need to update the major international treaties. The current texts of Berne and Rome date back to more than a quarter century ago. The culmination of these discussions was the conclusion of two new World Intellectual Property Organization ("WIPO") treaties in Geneva in December 1996, dealing with copyright and neighboring rights. Among other things, these treaties and their interpretive statements require that rightholders enjoy exclusive control over on-demand electronic dissemination of their works, and confirm that the reproduction right is fully applicable in the digital environment. They also require member countries to provide legal protection for technologies used to prevent infringement, and for the rights management information that right-holders may choose to provide in digital form.

Perhaps equally notable is one subject the treaties do not address: the question of on-line service provider liability. Traditionally, the question of which parties in a chain of distribution of an infringing work are liable for the infringement has been left to the national laws of individual countries. Since the new treaties are silent on this question, for now national legislatures remain free to grapple with shaping the answer in the Internet context. As answers begin to emerge, there may be renewed calls for international harmonization.

The treaties are not yet in effect; they require ratification by thirty countries, which will not happen overnight. Once the treaties come into force, it is possible that they will be incorporated into the TRIPS Agreement.

B. *Future WIPO Work Schedule*

Four other copyright-related issues are currently on the WIPO agenda: (1) protection for audiovisual performers; (2) *sui generis* protection for databases; (3) protection for expressions of folklore; and (4) the rights and liabilities of broadcasters. The first two issues are holdovers from the December 1996 Diplomatic Conference. Negotiators were unable to agree on an appropriate form of protection for audiovisual performers, and agreed to continue discussions with an eye toward a possible protocol to the neighboring rights treaty. A draft treaty on *sui generis* protection for databases was never reached at the Conference. . . .

IV. LONGER TERM

What is the outlook for the longer term? Now I will venture to make a few predictions.

A. *Increased Level of Satisfactory Laws*

First, the trend toward satisfactory protection will continue. In the not-so-distant future, more and more countries will accept the emerging international consensus on basic copyright principles, with modern and balanced copyright laws becoming standard around the world.

This trend is rooted in a rational self-interest. Within their borders, countries may be persuaded that copyright protection will lead to more creation overall, and encourage foreign investment and technology transfer, advancing the domestic culture and conomy. In the international arena, countries see the benefits they can obtain for their citizens by joining treaties on copyright and trade. Once they reach the stage of development where they perceive themselves as exporters of copyrighted works, not primarily users of works imported from abroad, the value of membership in a copyright treaty becomes clear. Even before that point, the trade-related benefits that may be obtained from joining a club like the WTO can outweigh any perceived drawbacks of adopting a new copyright law. Outside the parameters of the WTO, other countries like the United States may condition special trade treatment for developing countries on satisfactory protection of copyrighted works.

Major changes in copyright seem unlikely, however. The international norms embodied in legal systems around the world now reflect an accepted balance, ensuring that copyright owners can control economically significant uses of their works while allowing room for appropriate uses outside that control. The structure of the multilateral treaties permits and encourages this balance, by setting out only minimum rights and leaving considerable flexibility to national legislatures to determine what limitations on those rights are appropriate to their own conditions. This framework has stood the test of time and technological change; there is no reason why it should not continue to do so.

I do not believe that the list of copyright rights and subject matter will grow significantly. The future is likely to bring consolidation rather than expansion, with standards established on national levels being exported to more countries and eventually percolating upward into treaties. And of course, periodic adjustments will be required to adapt existing rights to new types of works and new forms of exploitation.

Now I will go out on a limb and make one truly long-term prediction. At some point, the pace of the adjustments required by the development of technologies may outstrip the ability of the law to keep up. After all, even today the state of the art in digital technology looks completely different every year, while the process of amending legal systems is slow and ungainly. Eventually a greater simplification of the system of rights may become desirable. Instead of specifically delineated rights tailored to particular techniques of exploitation, it might be preferable to provide authors with a general right to exploit the work in any manner, with an appropriate balance provided through exceptions relating to the purpose and economic effect of a use.

Some steps in this direction can already be seen in certain countries' laws

that provide to copyright owners a general right to exploit a work or make it available. Similarly, the new WIPO Copyright Treaty pulls together a number of detailed and specific rights from the Berne Convention into a broad and general right of communication to the public.

B. *Issues of the Future*

Accordingly, the focal point of international copyright is likely to shift. Rather than conceptual questions of subject matter and scope of rights, more practical issues will take center stage. These issues are not new, but are already the subject of considerable discussion today. They arise from the nature of a global, digital marketplace, and relate to enforcement, the operation of the market, and choice of law. I will outline a series of questions:

1. Enforcement: How can rights be effectively enforced when works are made available electronically across national boundaries?

Customs agencies will no longer be able to assist in enforcement by seizing physical copies at borders. As in the analogue world, law enforcement agencies will need to work together to develop cooperative approaches in order to deal with pirates operating in more than one jurisdiction. Copyright owners must be able to take action against these pirates without the impossible burden of suing in every country. In this context, the issue of who is legally responsible in the chain of an unauthorized dissemination of a copyrighted work may take on heightened significance.

2. The Market: How can a market for the licensing and sale of copyrighted works operate safely and efficiently over the Internet?

The solution will involve a combination of many elements, including protection of the integrity of the information used to make the market function, as required by the new WIPO treaties; protection of the authenticity of the works communicated; adequate and internationally compatible information systems; and the technology to allow permissions to be given and payments to be made electronically.

One topic related to both enforcement and the operation of the market is the future role of collecting societies. On the one hand, the new technologies could increase the need for copyright owners to rely on collecting societies; on the other hand, they could make it easier for copyright owners to administer and enforce rights individually.

3. Choice of Law: Which country's law applies when a work is made available by a distributor in one country to users in several other countries simultaneously?

While it is often noted that the Internet creates tensions for the traditional territorial basis for copyright protection, I believe it is premature to predict its demise. The principle of territoriality is too deeply embedded in the copyright

system, as part of the basic foundation. As long as copyright protection remains a function of each country's own law, it will be necessary to devise rules for choosing applicable laws in different settings. This problem has become a fashionable topic for examination at conferences, and a number of scholars have begun to develop possible solutions.

At the same time, the trend toward greater harmonization means that choice of law is less critical in determining outcome. Professor Jane Ginsburg, the leading U.S. commentator on this issue, has suggested an approach requiring courts to presume that a particular country's laws reflect the international consensus, placing the burden on the parties to prove otherwise. The international consensus could be established by the obligations of existing multilateral treaties, plus the contents of negotiated treaties reflecting widespread agreement, even if not yet in force. For example, the provisions of the two new WIPO treaties were adopted by consensus by the more than 100 countries participating in the 1996 Diplomatic Conference, and therefore can be seen as representing standards generally accepted as appropriate.

C. *Process and Players*

It is not only the substantive issues, but the process and the participants that are evolving.

One such direction is the intertwining of domestic and international concerns. In today's global market, it is no longer possible to evaluate changes to national law without considering the international implications. In weighing proposed legislation, Congress regularly considers questions of consistency with treaty obligations and the likely impact on other countries.

This is not simply an abstract exercise; questions posed to the United States at meetings of the TRIPS Council have made clear that every copyright bill introduced in Congress is under scrutiny by our trading partners. Nor is our interest purely defensive. U.S. legislation is inevitably part of an ongoing international mutual education process, and can serve as a starting point for discussion or a model for change. As countries grapple with issues posed for copyright by new technologies, they look to proposals developed elsewhere, particularly in the United States, for possible solutions. This is not a one-way street; debate on these issues at the Diplomatic Conference in Geneva was a valuable process, shedding further light on the problems and on the scope of evolving consensus.

Another path characterizing the process is the intertwining of intellectual property with other issues on the international agenda. For copyright, these include trade, protection of investment, and access to government data.

It has become increasingly clear in the past two years that the participants in the process have also changed. The days are over when international copyright was the province of a small club of copyright experts operating with a high degree of common language and mutual understanding. New players are involved in both the domestic and international debates, primarily as a result of the famed convergence in communications technologies in the digital age. Most notable is the involvement of the telecommunications industry, and providers of Internet services generally. At a relatively late date in the development of the WIPO

treaties, these interests became quite active in the discussions, and were extensively represented at the Diplomatic Conference in Geneva.

Although these players are here to stay, their identities and interests, like those of the copyright industries, are metamorphosing over time. Their businesses are highly dynamic, marked by shifts in the nature of their activities and increasing consolidation. The lines between industries, and between content providers and service providers, may become increasingly blurred. The impact on copyright is hard to predict.

One final significant change is the role of the developing countries. The division between the developed and developing worlds is no longer as distinct as it once was. A number of shifts in attitudes and alignments have taken place since the 1960s and 70s. I believe these shifts can be attributed in substantial part to the impact of technology. Even though most developing countries may not yet be fully adapted to the latest digital technology, they see the future rapidly approaching. These technologies promise to level the playing field by making it possible to create and disseminate works around the world with a minimum of investment. All that is needed is creative minds with a basic level of training—not an expensive infrastructure of factories or physical distribution facilities.

Other influences include the increased and unavoidable globalization of markets, and the related rise of international conglomerates doing business around the world. Every country today is subject to both the lure and the pressure of potential investment from these businesses. The lobbying in Geneva was by no means limited to delegations from the developed world.

Finally, it is no longer possible to characterize developed countries as favoring a high level of rights across the board, with developing countries favoring a lower level. Positions today are more complex among particular regions of the developing world, which in WIPO has been organized into an Asian group, a Latin American and Caribbean group, and an African group. Even within those regions, there is little unanimity. It is clear, however, that in some areas, developing countries are seeking stronger rights than certain countries in the developed world, including the United States. This is particularly true in the areas of moral rights, protection for performers, and protection of folklore.

WIPO PRIMER ON INTELLECTUAL PROPERTY AND E-COMMERCE __-__ (2000)

The protection of copyright and related rights covers a wide array of human creativity. Much of the creative content that fuels electronic commerce is subject to such protection. Under the most important international copyright convention, the Berne Convention, copyright protection covers all "literary and artistic works." This term encompasses diverse forms of creativity, such as writings, both fiction and non-fiction, including scientific and technical texts and computer programs; databases that are original due to the selection or arrangement of their contents; musical works; audiovisual works; works of fine art, including drawings and paintings; and photographs. Related rights protect the contributions of others who add value in the presentation of literary and artistic works to the public: performing artists, such as actors, dancers, singers and musicians; the producers of phonograms, including CDs; and broadcasting organizations.

Digital technology enables the transmission and use of all of these protected materials in digital form over interactive networks. While the transmission of text, sound, images and computer programs over the Internet is already commonplace, this will soon also be true for transmission of audiovisual works such as feature films, as the technical constraints of narrow bandwidth begin to disappear. Materials protected by copyright and related rights, spanning the range of information and entertainment products, will constitute much of the valuable subject matter of electronic commerce.

Given the capabilities and characteristics of digital network technologies, electronic commerce can have a tremendous impact on the system of copyright and related rights, and the scope of copyright and related rights in turn can have an effect on how electronic commerce will evolve. If legal rules are not set and applied appropriately, digital technology has the potential to undermine the basic tenets of copyright and related rights. The Internet has been described as "the world's biggest copy machine." The older technologies of photocopying and taping allow mechanical copying by individual consumers, but in limited quantities, requiring considerable time, and of a lower quality than the original. Moreover, the copies are physically located in the same place as the person making the copy. On the Internet, in contrast, one can make an unlimited number of copies, virtually instantaneously, without perceptible degradation in quality.[80] And these copies can be transmitted to locations around the world in a matter of minutes. The result could be the disruption of traditional markets for the sale of copies of programs, music, art, books and movies.[81]

It is therefore critical to adjust the legal system to respond to the new technological environment in an effective and appropriate way, and to do so quickly, because technologies and markets evolve increasingly rapidly. This will ensure the continued furtherance of the fundamental guiding principles of copyright and related rights, which remain constant whatever may be the technology of the day: giving incentives to creators to produce and disseminate new creative materials; recognizing the importance of their contributions, by giving them reasonable control over the exploitation of those materials and allowing them to profit from them; providing appropriate balance for the public interest, particularly education, research and access to information; and thereby ultimately benefiting society, by promoting the development of culture, science, and the economy.

Accordingly, the goal of policy makers has been to achieve an appropriate balance in the law, providing strong and effective rights, but within reasonable limits and with fair exceptions. If this effort is successful, the result should be a positive impact from all perspectives. Trade in copyrighted works, performances and phonograms will become a major element of global electronic commerce, which will grow and thrive along with the value of the material that is traded. If rightsholders are secure in their ability to sell and license their property over the Internet, they will exploit this market fully and make more and more valuable works available through this medium. Appropriate limitations and exceptions will continue to safeguard public interest uses. The result will be a benefit to consumers, a benefit to rightsholders, a benefit to service providers, and a benefit to national economies – a true "win-win" situation.

Overview of the Issues

The most fundamental issue raised for the fields of copyright and related rights is the determination of the scope of protection in the digital environment: how rights are defined, and what exceptions and limitations are permitted. Other important issues include how rights are enforced and administered in this environment; who in the chain of dissemination of infringing material can be held legally responsible for the infringement; and questions of jurisdiction and applicable law.

The definition of rights is the key issue, as intellectual property is no more or less than the sum of the rights granted by law. Under existing treaties and national legislation, the owners of copyright and related rights are granted a range of different rights to control or be remunerated for various types of uses of their property. For both groups of rightsholders, these rights include rights of reproduction and of certain acts of communication to the public, such as public performance and broadcasting. The development of digital technologies, permitting transmission of works over networks, has raised questions about how these rights apply in the new environment. In particular, when multiple copies are made as works traverse the networks, is the reproduction right implicated by each copy? Is there a communication to the public when a work is not broadcast, but simply made available to individual members of the public if and when they wish to see or hear it? Does a public performance take place when a work is viewed at different times by different individuals on the monitors of their personal computers or other digital devices?

Similar questions are raised about exceptions and limitations to rights. Are existing exceptions and limitations, written in language conceived for other circumstances, too broad or too narrow? Some exceptions, if applied literally in the digital environment, could eliminate large sectors of existing markets. Others may implement valid public policy goals, but be written too restrictively to apply to network transmissions. New circumstances may also call for new exceptions. These questions must be examined in light of the general standard established in treaties for the permissibility of exceptions and limitations to certain rights, known as the "three-step test:" exceptions are permitted "in certain special cases" that "do not conflict with a normal exploitation" of the work and "do not unreasonably prejudice the [owner's] legitimate interests."[82] How does this standard apply in the digital environment?

Issues of enforcement and licensing are not new, but take on added dimensions and urgency when works are exploited on digital networks. As noted above, the technologies pose substantial practical challenges. In order for legal protection to remain meaningful, rightsholders must be able to detect and stop the dissemination of unauthorized digital copies, accomplished at levels of speed, accuracy, volume and distance that in the past were unimaginable. And for electronic commerce to develop to its full potential, workable systems of online licensing must evolve, in which consumers can have confidence. The answer to these challenges to a great extent will lie in the technology itself.

Another issue is raised by the very nature of digital networks. By definition, when a work is transmitted from one point to another, or made available for the public to access, numerous parties are involved in the

transmission. These include entities that provide Internet access or online services. When such service providers participate in transmitting or making available materials provided by another which infringe copyright or related rights, are they liable for the infringement? Such liability could arise in one of two ways: if the service provider itself is found to have engaged in unauthorized acts of reproduction or communication to the public, or if it is held responsible for contributing to or making possible the act of infringement by another.

Finally, electronic commerce in the subject matter of copyright and related rights raises important issues of private international law . . . .

Responses to Date

All of these issues have been examined for a number of years through various public and private processes, at WIPO and other international organizations, and at national and regional levels. Significant progress has been made, with international consensus having already emerged on some issues. In 1996, two treaties were concluded at WIPO: the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) (commonly referred to as the "Internet treaties"). These treaties, although not yet in force, address the issues of the definition and scope of rights in the digital environment, and some of the challenges of online enforcement and licensing.

2. The Internet Treaties

The WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) are the outgrowth of several years of debate and discussion at the international level, which culminated in a Diplomatic Conference in Geneva in December 1996. The WCT provides protection for literary and artistic works, the same subject matter as the Berne Convention. The WPPT protects certain neighboring or related rights, that is, rights of performers and producers of phonograms. Its coverage does not extend to all neighboring rights, however, as it does not protect either broadcasters' rights or the rights of performers in audiovisual fixations.

The purpose of the '96 WIPO treaties was to update and supplement the existing multilateral conventions, primarily in order to respond to developments in technologies and markets. Both the Berne and Rome Conventions were aging, each dating back more than a quarter century, to a time before the existence of personal computers and the Internet. In addition, the Rome Convention had a relatively limited membership, and it was hoped that a more comprehensive and modern treaty would attract more countries from different legal traditions to join. Even the more recent TRIPS Agreement did not address many of the challenges posed by digital technologies, which are described in the excerpt above. Because the '96 WIPO treaties do address these challenges, they are often referred to as the "Internet treaties."

It is important to understand, however, that the WCT and WPPT are not limited to dealing with digital issues. Other elements of the treaties, while they have received far less public attention, provide more complete and modern protection for authors, producers and performers of creative works and

phonograms, while providing leeway for reasonable limitations on their rights. The treaties' contents can be divided into three general categories: (1) the incorporation of several provisions of the TRIPS Agreement that had not previously been included in WIPO treaties; (2) certain updates that are not specific to digital technologies;and (3) the provisions that address the challenges of digital technologies. The following excerpt describes the third, and most well-known, category of treaty provisions.

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Scope of rights

Perhaps the most basic right granted under both copyright and related rights is the right of reproduction, which under the Berne Convention covers reproduction "in any manner or form."[83] This right is at the core of electronic commerce, because any transmission of a work or an object of related rights presupposes the uploading of that work or object into the memory of a computer or other digital device. In addition, when the work or object is transmitted over networks, multiple copies are made in the memory of network computers at numerous points. It is therefore necessary to determine how the reproduction right applies to such copies. In 1982, at a meeting of government experts co-organized by WIPO and UNESCO, a broad-based understanding was reached that uploading into memory should be considered as an act of reproduction. This understanding was reconfirmed in 1996 in Agreed Statements to the WCT and WPPT, which state: "The reproduction right . . . and the exceptions permitted thereunder, fully apply in the digital environment, in particular to the use of works in digital form. It is understood that the storage of a protected work in digital form in an electronic medium constitutes a reproduction within the meaning of the [relevant treaty right.]" The appropriate application of the reproduction right in the case of temporary copies in computer random access memory (RAM) continues to be a subject of debate at the national and international levels. The key question is whether such copies always require the consent of the rightsholder in order to avoid infringement. Carefully tailored exceptions for such copies in certain circumstances have been enacted recently in the United States of America and proposed by the European Commission in a draft Directive.[84]

The WCT and the WPPT also clarify the extent of rightholders' control when works, performances and phonograms are made available to the public for downloading or access on the Internet.[85] This type of transmission differs from broadcasting, in that the material is not selected and delivered by an active transmitter like a broadcaster to a group of passive recipients. Rather, it is transmitted interactively, that is, on demand from the individual users, at a time and place of their choosing. The treaties require that an exclusive right be granted to control such acts of "making available", while leaving it to individual countries to decide how to categorize this right under national law.

As to the scope of these exclusive rights, the new treaties continue to provide flexibility to individual countries to develop exceptions and limitations that are appropriate to their particular circumstances.[86] The general "three-step"

test applied to the reproduction right in the Berne Convention and to all rights in the TRIPS Agreement is extended to apply to all rights in the Berne Convention and in the two treaties. An important Agreed Statement clarifies that this test permits countries to extend existing exceptions and limitations into the digital environment, or to add new ones, as appropriate.[87]

Technological adjuncts to rights

The WCT and the WPPT also break new ground in recognizing the emerging role to be played by technological protection measures, and by online management and licensing systems. They require member States to provide two types of technological adjuncts to the protection of copyright and related rights, in order to ensure that the Internet can become a safe place to disseminate and license protected material.

The first technological adjunct is generally referred to as an "anti-circumvention" provision.[88] It relates to the need of rightsholders to rely on technological measures to protect their works against infringement on the Internet. No matter how ingenious the technology used to protect works against unauthorized use, equally ingenious ways may be developed to circumvent it. The resulting level of insecurity could prevent rightholders from being willing to disseminate valuable materials on the Internet. Given the inability to achieve total security, a realistic goal is to make the technology sophisticated enough to deter the ordinary consumer from seeking to circumvent, while granting legal redress against those who represent a greater threat – hackers and those engaged in circumvention as a business. Toward this end, the treaties require member States to provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures used by rightsholders to restrict unlawful and unauthorized acts. The treaty language is general enough to allow significant flexibility to national governments in determining the details of appropriate implementation.

As a second technological adjunct, the treaties protect "rights management information," providing legal support to network-based rights management systems.[89] Such systems operate based on electronic data attached to the works and objects of related rights. The data may identify the author or performer, the rightsholder, and the work or object itself, and may further describe the terms and conditions for its use. Under the treaties, member States must provide adequate and effective legal remedies against the deliberate removal or alteration of such information, and against the dissemination of works, performances or phonograms from which such information has been removed or altered, where these acts are performed with at least reasonable grounds to know that they will induce, enable, facilitate or conceal infringement. This will enhance the ability of rightsholders to exploit their property on the Internet, and allow consumers to rely on the accuracy of the information they receive so they can feel secure transacting online.

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As to the other two categories of treaty provisions, they can be summarized briefly.

TRIPS Provisions

The WCT incorporates, in almost identical language, several of the obligations in the TRIPS Agreement. First, it contains a separate article on the scope of copyright protection, stating that it "extends to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such." Article 2. Other articles require contracting parties to protect computer programs and original databases as literary works under copyright law. Articles 4 and 5.

Both the WCT and the WPPT include rental rights for computer programs, cinematographic works, phonograms, and works embodied in and performances fixed in phonograms, subject to the same conditions as the TRIPS Agreement. WCT Article 7; WPPT Articles 9 and 13.

Finally, the WPPT provides performers with a right to control the fixation of their performances (art. 6), and establishes a similar 50-year term of protection for fixed performances and phonograms (art. 17).

Other Nondigital Updates

The WCT includes a distribution right, explicitly applicable to tangible copies only. It is left to national legislation to determine the conditions under which the right is exhausted after the first sale of a particular copy. Article 6. The WCT also generalizes the right of communication to the public scattered through various provisions of the Berne Convention (Art. 8), and requires photographic works to be given the same term of protection as other works (Art. 9).

The WPPT provides a wider array of rights for performers and phonogram producers than those in the Rome Convention and the TRIPS Agreement. The rights in the WPPT include a broader reproduction right covering "direct or indirect reproduction . . . in any manner or form." Articles 7 and 11. A distribution right is also provided (Arts. 8 and 12), as well as a right of remuneration for broadcasting and communication to the public (with an option for countries to choose to limit or not apply the remuneration right) (Art. 15). Unlike the rights provided to copyright owners by the WCT, this communication right is separate from the "making available" right in Article 14, which is exclusive in nature and covers on-demand interactive transmissions only. Finally, the WPPT provides moral rights for performers, similar to but somewhat more limited than the moral rights for authors under Berne. Article 5.

Both treaties require contracting parties to make available to rightholders adequate and effective enforcement procedures, but without the specificity of the TRIPS enforcement procedures, discussed *infra* Ch. IX. WCT Article 14; WPPT Article 23.

As noted above in connection with the digital issues, both treaties provide an overall standard for the acceptability of limitations and exceptions to rights, generalizing the test found in Berne Article 9(2) and TRIPS Article 13. Although the contentious issue with regard to this standard was its application to the digital environment (addressed in the Agreed Statement), the standard itself is technology-neutral.

Status

Each treaty must be adhered to by 30 countries before it enters into force. Each has already been signed by 50 or more countries, indicating their intent to ratify. As of July 2000, 19 countries had adhered to the WCT and 16 to the WPPT. These countries come from different regions of the world, and different levels of development. Many other countries have expressed the intent to ratify the treaties, and a number are already working on implementing legislation and/or the preparation of their instruments of ratification or accession for deposit with WIPO.

Pamela Samuelson, THE U.S. DIGITAL AGENDA AT WIPO
37 Va. J. Int'l L. 369 (1997)

I. Introduction

In December 1996, the World Intellectual Property Organization (WIPO) hosted a diplomatic conference in Geneva to consider three proposals to update world intellectual property law. The conferees considered draft treaties to revise treatment of copyright issues, legal protection for sound recordings, and legal protection for the contents of databases. Each contained provisions intended to respond to challenges that global digital networks pose for intellectual property law. This Article will trace the fate of the U.S. digital agenda for these treaties. It will show that the treaties which were eventually concluded in Geneva, particularly the copyright treaty, are more compatible with traditional principles of U.S. copyright law than was the high-protectionist agenda that U.S. officials initially sought to promote in Geneva.

. . .

. . . [T]he digital agenda negotiations warrant attention because they were a battle about the future of copyright in the global information society. To use that awful, shopworn metaphor just this once, the U.S. digital agenda at WIPO aimed to write the rules of the road for the emerging global information superhighway. . .

Insofar as the copyright treaty emanating from the diplomatic conference contains provisions addressing digital agenda issues, these provisions reflect an approach that strongly resembles the balancing-of-interests approach that has been traditional in U.S. copyright law. The WIPO Copyright Treaty even affirms "the need to maintain a balance between the interests of authors and the larger public interest, particularly education, research and access to information." This expression of renewed faith in the abiding value of a balanced public policy approach to copyright in the digital environment suggests that predictions of the end of copyright--that is, its displacement by trade policy in the aftermath of the Agreement on Trade-Related Aspects of Intellectual Property Rights(TRIPS)--may have been premature. . . .

Not only was there support at the diplomatic conference for recognition of national authority to grant exceptions and limitations as a means of balancing the interests of copyright owners and the public, there was also support for making the principle of balance a fundamental purpose of the treaty by adding a new clause to

the treaty's preamble. The preamble to the Chairman's original draft treaty had three parts:

> Desiring to develop and maintain the protection of the rights of authors in their literary and artistic works in a manner as effective and uniform as possible,
> Recognizing the need to introduce new international rules and clarify the interpretation of certain existing rules in order to provide adequate solutions to the questions raised by new economic, social, cultural and technological developments,
> Recognizing the profound impact of the development and convergence of information and communication technologies on the creation and use of literary and artistic works[.]

To these, the final treaty added another purpose:

> Recognizing the need to maintain a balance between the rights of authors and the larger public interest, particularly education, research and access to information, as reflected in the Berne Convention[.]

This new preamble provision represents a major development in international copyright policy. If copyright policy on an international scale had seemed to be veering away from traditional purposes such as the promotion of knowledge in the public interest and toward a solely trade-oriented set of purposes, this treaty can be seen as a timely correction in the course of international copyright policy. Though the Chairman's initial draft was consistent with a trade-based approach to copyright policy, the final treaty reaffirms faith in the concept of maintaining a balance between private and public interests in copyright policymaking and of recognizing that education, research, and access to information are among the important social values that a well-formed copyright law should serve.

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D. Regulating Circumvention Technologies

An important part of the U.S. digital agenda at WIPO was establishment of a new international norm to regulate technologies and services likely to be used to circumvent technological protection for copyrighted works. The electronic future envisioned in the U.S. White Paper, as well as that for which many major content providers seem to be planning, contemplates broad use of technological measures, such as encryption, to protect content in digital form. As promising as such technologies are, they too pose a problem: what one technology can do, another can generally undo. Hence, the perceived need for law to regulate infringement-enabling technologies and services.

The impetus for this provision came largely from the U.S. motion picture industry, which has for many years been keen on the idea of regulating technologies that enable infringement. . . . As other content owners came to

understand the desirability of technological solutions to the problem of protecting digital content, the motion picture industry gained new allies to support stronger regulation of circumvention technologies and services. The ongoing WIPO treatymaking process offered an opportunity for an international accord on regulation of infringement-enabling technologies and services. This was important because without such an accord the effectiveness of any national regulation could not be assured. Even if the U.S. Congress could be persuaded to outlaw distribution of circumvention software in the United States, the availability of such software on servers in, for example, Finland or Indonesia would not stop U.S. nationals from gaining access to that software via the global Internet.

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E. Protecting Rights Management Information

A fifth component of the U.S. digital agenda at WIPO was acceptance of a second unprecedented norm for an international copyright treaty, namely, an agreement to protect the integrity of copyright management information (CMI) that might be attached to digital copies of protected works. . . .

. . .

The RMI provision of the draft treaty proved to be one of the least controversial parts of the digital agenda at WIPO. But even this limited version of the U.S. proposal was further trimmed in the course of diplomatic negotiations. Concerns had arisen that the U.S. proposal would inadvertently make illegal some alterations to RMI that presented no threat to the legitimate interests of rights holders. An alteration to RMI attached to licensed copies to correct RMI after a change in copyright ownership should not be illegal, but would have been under the Chairman's original draft. To overcome this problem, the RMI provision was amended so that alterations to RMI and distributions of copies with altered RMI would only be illegal insofar as they facilitated or concealed infringing activities.

As with the anti-circumvention provision in the WIPO Copyright Treaty, the U.S. delegation did not get exactly what it had originally sought. However, it was no small achievement to get as article 12 of the final treaty a provision that will significantly protect rights management information attached to digital copies of protected works transmitted via global networks.

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IV. Reflections on the Outcome in Geneva

. . Even though the U.S. delegation did not achieve all that it had hoped in Geneva, Commissioner Bruce Lehman was not just engaging in spin control when he announced a successful outcome for U.S. industries from the copyright treaty signed in Geneva.

. . .

B. Measures of Success for the U.S. Digital Agenda at WIPO

Whether one judges U.S. efforts to promote a digital agenda at WIPO as a success or a failure depends on what one decides to measure. By comparison with the high-protectionist agenda reflected in the White Paper and the U.S.

submissions to WIPO, one would have to say that the U.S. efforts were largely unsuccessful. The conference rejected the temporary copying proposals that had initially had U.S. support. It decided to treat digital transmissions as communications to the public, rather than as distributions of copies (which may bring with it a widened possibility for some private transmissions of works). The treaty not only preserved existing user right privileges in national laws; it recognized that new exceptions might appropriately be created. The Chairman's variant on the U.S. White Paper's anti-circumvention provision garnered almost no support. Even though the treaty contains a rights management information provision, it is watered down by comparison with what the U.S. delegation had sought. . . .

Seen from another perspective, however, the U.S. digital agenda had considerable success. It is now clear that copyright law applies in the digital environment, and that storage of protected works is a reproduction that can be controlled by copyright owners. The treaty also protects copyright owners from digital transmissions insofar as they constitute communications to the public. The treaty reaffirms the three-step test that limits national authority to adopt exceptions or limitations to certain special cases that do not conflict with a normal exploitation of the work or unreasonably prejudice the legitimate interests of the author. It also requires states to have adequate protection and effective remedies against circumvention technologies and services, and to protect rights management information from alteration and removal insofar as these conceal or facilitate infringement. . . .

The copyright treaty that emerged from the diplomatic conference was a real success for the United States in part because that treaty is actually more consistent with the letter and spirit of U.S. copyright law than the digital agenda that Commissioner Lehman initially sought to promote in Geneva. For example, the conference decision not to overstretch the reproduction right of copyright law . . . is consistent with the general trend in U.S. caselaw . . . Insofar as the original draft of article 7 would have made online service providers and other intermediate institutions liable for all user infringements, including those of which they knew nothing, the treaty's rejection of article 7 is consistent with U.S. caselaw. U.S. courts lately have been holding intermediate institutions liable only when they knew of infringement and took no action to control it. U.S. copyright law has long accorded copyright owners the right to transmit their works to the public. Hence, the treaty's endorsement of treating digital transmissions as communications to the public is consistent with U.S. copyright law. Now that the treaty has confirmed that copyright owners do have rights to control digital transmissions that communicate their works to the public, perhaps they will feel sufficiently protected and will begin digitally transmitting more of their commercially valuable works to the public.

The treaty's endorsement of balancing principles in copyright law, in particular, the importance of considering the impact of copyright rules on education, research, and access to information, is consistent with longstanding principles of U.S. copyright law. The treaty's confirmation of the viability of existing exceptions and limitations preserves the U.S. fair use defense, as well as other privileges embodied in the U.S. copyright statute. Also consistent with U.S. copyright principles is the treaty's stated expectation that new exceptions and

limitations may emerge or evolve in digital networked environments.

Insofar as the U.S. copyright law already has a number of rules that regulate circumvention technologies, the treaty's provision on this subject is also consistent with U.S. law. . . . Even the RMI provision has some counterpart in existing U.S. copyright rules on removal and falsification of copyright notices. The more narrowly tailored treaty provision on RMI, as compared with the provision initially sought by the U.S. delegation, is also consistent with balancing principles of U.S. law.

Although this Article has depicted the outcome of the digital agenda at WIPO in relatively rosy terms, this success should not be seen for more than it is. Just because balancing principles found their way into the recent copyright treaty does not mean that there will cease to be pressure to grant more extensive protection to copyright owners. . . . The Berne Convention, after all, only establishes minimum rules for national laws, not maximum rules. Moreover, other developments, such as widespread use of shrinkwrap licenses or electronic equivalents that substantially limit user rights, as well as emerging use of encryption and other technological protections may make the balancing principles of copyright law something of an historical anachronism. However, there is still reason to cheer the digital agenda reflected in the copyright treaty signed in Geneva on December 20, 1996. Confidence in balancing principles, such as those reflected in the copyright treaty, may yet be carried over to other legal rules regulating digital information, such as those that will govern electronic commerce in digital information products and services. Moreover, consumer preference for unrestricted or more lightly restricted copies of digital works over the highly protected copies may cause many publishers to abandon the otherwise appealing mindset that would seek ever stronger technological protection for digital content. The right motto for the digital future may be: "protect revenues, not bits." The phenomenal success of the software industry has, after all, occurred notwithstanding the unprotected nature of most copies sold in the mass-market. This should hearten traditional copyright industries which are now trying to retool their products and processes so they can commercially distribute works in digital networked environments. The market for copyrighted works in digital form is already very substantial, and it will continue to grow. Copyright owners cannot expect a digital future in which no unauthorized copies will be made. What they can expect, and what the digital agenda in the just-completed WIPO Copyright Treaty will bring, is enough protection so that the leakage that occurs does not become a hemorrhage.

NOTES AND QUESTIONS

1. Professor Samuelson's view is that of a prominent vocal critic of the U.S. Government's policy goals on the digital issues, both in the U.S. Congress and in the WIPO context. Her characterization of the U.S. delegation's strategy, positions and objectives during the course of the negotiations leading up to and including the 1996 Diplomatic Conference has been vigorously contested by some of the participants. Her article also describes the intense lobbying efforts of opponents of the U.S. goals, both in Washington and with other government delegations in Geneva, giving a flavor of the passionate and polarized nature of

this particular treaty process. Regardless of the disagreement and the sharply differing perspectives on the process, however, the ultimate outcome of the negotiations has been widely viewed as a reasonable compromise, with treaty provisions that are balanced and fair.

2. It should be noted that the WCT and WPPT were adopted by consensus, by more than 100 countries. All of the treaty provisions and all but one of the Agreed Statement were the product of such consensus, not requiring any votes. The treaties therefore reflect a broad international agreement as to how copyright and related rights should be handled in today's environment, including the context of digital technologies. This is not surprising, as many compromises were made during the negotiation process between the demands of countries seeking stronger rights and those seeking greater protection for users and for intermediaries such as equipment and communications infrastructure providers.

3. As reflected in Professor Samuelson's article, some of the most controversial provisions at the Diplomatic Conference related to digital issues. These included the treatment of temporary copies in computer RAM, online service provider liability, and the prohibition against the circumvention of technological protection measures. Another important issue is the scope of exclusivity for phonograms. *See* Agreed statement to Art. 15. What does this refer to? What's not covered?

4. Other areas of significant controversy, however, were not digital issues. Much time was spent negotiating the issue of exhaustion of rights and the inclusion of performers' rights in audiovisual fixations. The outcome of both was essentially an agreement to disagree, although the techniques used were different. As to exhaustion, the second paragraph of the distribution right in each treaty leaves the question to be resolved by national law. How does this solution compare to the solution in Article 6 of the TRIPS Agreement? As to performers' rights, after strenuous attempts to overcome longstanding U.S. opposition to the inclusion of audiovisual performers in the WPPT through a last-minute compromise (in fact initiated by the United States), in the end this subject matter was dropped from the treaty with a resolution to continue work toward a future protocol. See discussion below at ___. Finally, the issue of national treatment was, as always, one of the final negotiating points. The United States pushed strongly for a broader Berne-style national treatment provision; the ultimate result was a narrower approach closer to Rome.

5. In what ways are the moral rights provided for performers in the WPPT more limited than those provided for authors in Berne? In what circumstances would the outcome be different?

6. Most counties that have implemented the treaties have not found the process to be extremely burdensome. In general, the treaties do not require major changes to existing legal systems, especially for those countries already in compliance with Berne and TRIPS. The primary changes that have been necessary have been modifying the scope of rights to ensure that they cover the "making available" right for on-demand transmissions, adding moral rights for performers, and adding the technological adjuncts to rights (anti-circumvention and protection of rights management information). While moral rights for performers has been a stumbling block in some countries, the major area of difficulty, both technically and politically, has been in implementing the provision

on anti-circumvention.

7. Article 1 of the WCT provides that "this Treaty shall not have any connection with treaties other than the Berne Convention, nor shall it prejudice any rights and obligations under any other treaties." But the panel in *United States–Section 110(5) of the U.S. Copyright Act* took notice of the language of the WCT in interpreting the minor exceptions doctrine under the Berne Convention and Article 13 of TRIPS. *See infra* Ch. VII.

3. Treaty Implementation: Prohibition of Anti-circumvention

STATEMENT OF MARYBETH PETERS, REGISTER OF COPYRIGHTS
BEFORE THE HOUSE SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY ON H.R. 2180 AND H.R. 2281
105th Congress, 1st Session (September 16, 1997)

Technological Adjuncts to Copyright

Each of the WIPO treaties includes two provisions that require member countries to provide technological adjuncts to copyright protection. These technological adjuncts are intended to further the development of digital networks by making them a safe environment for copyrighted works to be disseminated and exploited. One provision protects against circumvention of the technology that copyright owners may use to protect their works against infringement. It is phrased in very general terms, leaving up to each country precisely how to define the prohibited conduct. The other provision prohibits the deliberate alteration or deletion of information that copyright owners may choose to provide over the Internet to identify their works and the terms and conditions of their use.

The bill would create a new Chapter 12 in Title 17 to implement these obligations. The prohibitions themselves are contained in new sections 1201 and 1202; sections 1203 and 1204 set out civil remedies and criminal penalties, respectively.

1. Anti-circumvention

a. Background and purpose

New section 1201 would implement Article 11 of the WIPO Copyright Treaty and Article 18 of the WIPO Performances and Phonograms Treaty, which require treaty members to "provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights . . . and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law."

This language was deliberately written to be broad and general, and to leave to individual countries considerable flexibility in determining precisely how to formulate the prohibition. There are likely to be different methods adopted in different countries to satisfy this obligation. The ultimate test of treaty compliance

for any of them will be whether the language chosen "provide[s] adequate legal protection and effective legal remedies."

After an extensive analysis, the Copyright Office has concluded that existing protections under U.S. law are insufficient to satisfy the treaty obligation. . . . We do not believe that the doctrine of contributory infringement provides sufficient protection to fulfill the treaty obligation to provide "adequate legal protection and effective legal remedies" against circumvention. As the Supreme Court interpreted that doctrine in Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984), the manufacturer or distributor of a copying device is not liable if the device is "merely capable of substantial noninfringing uses." Id. at 442. Most devices for circumventing technological measures, even those designed or entirely used for infringing purposes, will be capable of substantial noninfringing uses since they could potentially be employed in the course of a fair use, or in the use of a public domain work. It is therefore not surprising that the Sony standard, in practice, has been ineffective in addressing the circumvention problem. See Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1983). Copyright, moreover, may not afford any recourse against those who engage in acts of circumvention alone.

Some of the other laws we considered address particular aspects of circumvention of particular types of technological protection measures such as the scrambling of broadcast signals. In the aggregate, however, they fail to provide the general coverage required by the treaties.

The anti-circumvention issue is without doubt the most difficult of the issues presented in treaty implementation. The challenge is how to formulate a prohibition that provides meaningful protection to copyright owners, while avoiding chilling the development of legitimate consumer technology and lawful uses of copyrighted works and public domain materials. While a perfect solution may not be possible, we believe that an appropriate compromise can be found. Section 1201 of H.R. 2281 represents a reasonable attempt to reach such a compromise. It reflects the lengthy debate that took place in the United States and Geneva over the course of the past two years, and is narrower and more carefully tailored than prior proposals.

In the Copyright Office's November 1995 testimony on the NII Copyright Protection Act, we noted the importance of providing legal protection for technological measures used by copyright owners to protect their works against unauthorized use on the Internet. Unless copyright owners have confidence that their works can be secured against loss, they will not be willing to utilize this promising new means of exploitation to its full potential. As I stated then,

> One of the most serious challenges to effective enforcement of copyright in the digital environment is the ease, speed and accuracy of copying at multiple, anonymous locations. In order to meet this challenge, copyright owners must rely on technology to protect their works against widespread infringement. But every technological device that can be devised for this purpose can in turn be defeated by someone else's ingenuity. Meaningful protection for copyrighted works must therefore proceed on two fronts: the property rights themselves, supplemented by legal

assurances that those rights can be technologically safeguarded.

It was for these reasons that the countries meeting in Geneva to negotiate the WIPO treaties agreed unanimously on the need for such a legal prohibition.

. . .

c. Issues and concerns

Two main areas of concern have been identified with respect to section 1201: its coverage of products used to circumvent, such as consumer electronics and software, and its potential impact on fair use interests.[90]

Some have urged that the legislation not address the provision of products or services, but focus solely on acts of circumvention. They state that the treaties do not require such coverage, and argue that devices themselves are neutral, and can be used for either legitimate or illegitimate purposes.

It is true that the treaties do not specifically refer to the provision of products or services, but merely require adequate protection and effective remedies against circumvention. As discussed above, however, the treaty language gives leeway to member countries to determine what protection is appropriate, with the question being whether it is adequate and effective. Because of the difficulty involved in discovering and obtaining meaningful relief from individuals who engage in acts of circumvention, a broader prohibition extending to those in the business of providing the means for circumvention appears to be necessary to make the protection adequate and effective. It is the conduct of commercial suppliers that will enable and result in large-scale circumvention.

The bill's approach to manufacturing, importing and selling is essentially an application of the familiar concept that those who participate in or assist in a prohibited act may themselves be culpable. There is ample precedent for the approach. So-called "black boxes" for descrambling cable and satellite signals are banned under federal law, as are devices for thwarting serial copy management systems in digital audio recording devices. See 47 U.S.C. §§ 553(a)(2) and 605(c)(4); 17 U.S.C. § 1002(c).

The challenge is how to limit the coverage of such activities sufficiently, so as not to chill legitimate development activities. There appears to be general agreement on two basic propositions: (1) People should not be able to engage in profit-making activities intentionally aimed at circumventing protection for copyrighted material; (2) the development and sale of multi-purpose products with substantial lawful uses should not be prevented. The difficulty lies in the grey area in between.

H.R. 2281 . . . imposes three limitations on circumstances where liability may be found. The provider would have to deliberately design the product to circumvent or advertise it as doing so, or the product would have to be essentially a circumvention device with only limited use for other purposes. In contrast, those items that have significant legitimate purposes or functions, such as general purpose computers, would not be covered despite the fact that they may also be used on occasion to circumvent.

The "only limited commercially significant purpose or use" test appears to build on, but tighten, the Sony standard. It makes the standard more meaningful

by referring to the extent to which the product is actually used for legitimate purposes, rather than its capability to be used for such purposes. At the same time, it is consistent with Sony in that it does not prohibit products with a substantial non-circumventing use, only those with merely limited commercially significant non-circumventing use.

These limitations improve on prior versions of anti-circumvention legislation, and aim more precisely at bad actors—those who deliberately facilitate unlawful activity. The limitations would rule out, for example, devices produced for a legitimate purpose that unexpectedly turn out to be used by consumers primarily to circumvent (as long as they were also used for their intended purpose to a commercially significant extent).

. . .

The other major area of controversy relates to the impact of section 1201 on fair use and other user privileges under the Copyright Act. The Copyright Office firmly believes that the fair use doctrine is a fundamental element of the copyright law, and that its continued role in striking an appropriate balance of rights and exceptions should not be diminished. We also believe that it is possible to provide effective protection against circumvention without undermining this goal.

Section 1201 seeks to accomplish this result in several ways. First, it treats access-prevention technology separately from infringement-prevention technology, and does not contain a prohibition against individual acts of circumvention of the latter. As a result, an individual would not be able to circumvent in order to gain unauthorized access to a work, but would be able to do so in order to make fair use of a work which she has lawfully acquired. Second, it contains a savings clause that explicitly preserves fair use and other exceptions to rights in the Copyright Act.

Some argue, however, that these attempts do not go far enough and will not avoid damage to fair use interests. As a practical matter, they are concerned that access will not be made available for fair use purposes, and that there may be technological control over each occasion of use. They are also concerned that section 1201 will prevent the development of products that enable individuals to bypass such continued access controls, or infringement-prevention technology under paragraph (2), in order to make fair use. These are important issues that deserve careful consideration.

Some background may be helpful in considering the topic of access controls. It has long been accepted in U.S. law that the copyright owner has the right to control access to his work, and may choose not to make it available to others or to do so only on set terms. This means not only that a copyright owner may keep a work forever unpublished, but also that he can publish it while controlling the conditions under which others are allowed to see it—such as charging a fee or imposing restrictions on how the work may be used.[91] Users generally pay for access and then, depending on the form in which the work is embodied, may accept the copyright owner's terms or negotiate for other terms. Libraries, for example, typically purchase a physical copy such as a book to make available on-site, or in obtaining access to works in electronic form, accept the terms presented or negotiate terms for use by their patrons.

The bill would continue this basic premise, allowing the copyright owner

to keep a work under lock and key and to show it to others selectively. Section 1201 has therefore been analogized to the equivalent of a law against breaking and entering. Under existing law, it is not permissible to break into a locked room in order to make fair use of a manuscript kept inside.

In this area too, the treaties do not specifically require protection for access controls in themselves. Again, the determination to be made by Congress is how best to ensure adequate and effective protection for technological measures used by copyright owners to prevent infringement. It is our understanding that access controls such as encryption will be the primary and most effective measures that copyright owners are likely to use in the on-line environment.

One key issue is the type of access involved. Once a person has lawfully acquired access to a work, will he or she be able to make fair use? Or will such strong technological controls be imposed that each use will require additional authorization? If the former, users could be required to pay for access as they are today, and then subsequent uses might be permissible under Copyright Act exemptions. (Some have noted, however, that the existence of legal protection itself may change bargaining power in negotiating terms of use.) If the latter, it might not be possible ever to engage in such exempted conduct without payment of a new access fee.

Other critical questions are whether, as a practical matter, copyright owners will adopt reasonable terms for granting lawful access, including recognition of fair use interests; whether copyrighted works will remain available in formats other than electronic, encrypted form to be used for fair use purposes; and whether any technological means will be developed to allow individuals to circumvent for lawful purposes. The Copyright Office agrees that it would be extremely undesirable to end up with a world where fair use interests were not accommodated in an optimal manner. We share the concerns as to how these questions will be answered. If the fair use community's fears were realized, the risk would be high. If access for such purposes becomes unduly restricted, with fees charged for each use, unreasonable costs imposed, and copies not available in non-electronic form, a legislative solution would be called for.

NOTES AND QUESTIONS

1. The U.S. treaty implementation legislation was enacted in October 1998 as Title I of the Digital Millennium Copyright Act, after compromises were reached on the difficult issues described in the Register's testimony. The concerns as to the potential chilling effect on the development of devices and services were addressed by retaining the three-part test she describes, and adding a provision that states explicitly that devices need not be designed to respond affirmatively to any particular technological measure (as a quid pro quo for this provision, a statutory exception requires that VCRs be manufactured to conform to certain specific technology for protecting audiovisual works against unauthorized copying, known as Macrovision). *See* 17 U.S.C. §§ 1201(c)(3) and (k).

2. The compromise on the fair use issue was more complex. As described in the Register's testimony, the bill as introduced included two elements intended to safeguard fair use interests: a savings clause stating that fair use and other limitations on copyright remained unaffected, and the division of technological protection measures into two categories—those measures that

control unauthorized access, and those that prevent unauthorized copying or other use once access has been obtained. The act of circumvention is prohibited only as to the first category, the access-control measures; users remain free to circumvent measures that prevent copying. In the course of the debates, two major additional elements were added. First, there are a series of carefully-drawn exceptions to the prohibition, permitting certain acts of circumvention with a public interest purpose, such as circumvention by libraries to access a work to determine whether to acquire a copy for their collections, and circumvention for fair-use consistent reverse engineering of a computer program, or for encryption research or security testing. Most important is the establishment of a mechanism for ongoing review by the government in order to avoid abuse of the system and the potential undermining of the balance of rights and exceptions built into existing copyright law. The Librarian of Congress, upon the recommendation of the Copyright Office, is to conduct a periodic rule-making to determine whether the prohibition on circumvention has caused or is likely to cause an adverse impact on the ability to make noninfringing uses of a particular class of works, and if so, the prohibition will not apply to users of that class of works during the period until the next rule-making. § 1201 (a)(B)-(C). For more details about the legislation, see the Copyright Office Summary at _____.

3. What do you think of these compromises? Do they adequately address the concerns? What are the pros and cons? Can you suggest a better approach, in terms of either effect or as a matter of legislative drafting?

4. Other countries have begun to adopt their own differing solutions to similar concerns. In Japan, for example, the treaty implementation language applies to the provision of devices or services, but does not cover acts of circumvention in themselves; it applies to copy control technologies but not access control technologies (which, however, are apparently covered, at least to some extent, by unfair competition law); but it also provides for liability for those who make copies for personal use (otherwise a permitted act under Japanese law) knowing that the copying is made possible by the circumvention of technological protection measures. Compare the solution so far developed in the European Union, in the Common Position on Article 6 of the Copyright Directive. Are these solutions compatible with the DMCA? If not, will the incompatibility cause practical or legal problems? Which approach is preferable, and why?

EUROPEAN PARLIAMENT AND COUNCIL DIRECTIVE 00/00 ON
THE HARMONISATION OF CERTAIN ASPECTS OF COPYRIGHT AND RELATED RIGHTS IN THE INFORMATION SOCIETY

Common Position adopted June 7, 2000

Whereas:

. . .

30. Technological development will allow rightholders to make use of technological measures designed to restrict acts not authorized by the rightholders of any copyright, rights related to copyright or the sui generis right to databases. The danger, however, exists that illegal activities might be carried out in order to enable or facilitate the circumvention of the technical protection provided by these

measures. In order to avoid fragmented legal approaches that could potentially hinder the functioning of the Internal Market, there is a need to provide for harmonised legal protection against circumvention of effective technological measures and against provision of devices and products or services to this effect;

30bis. Such a legal protection should be provided to technological measures that effectively restrict acts not authorized by the rightholders of any copyright, rights related to copyright or the sui generis right in databases without, however, preventing the normal operation of electronic equipment and its technological development. Such legal protection implies no obligation to design devices, products, components or services to correspond to technological measures, so long as such device, product, component or service does not otherwise fall under the prohibition of Article 6. Such legal protection should respect proportionality and should not prohibit those devices or activities which have a commercially significant purpose or use other than to circumvent the technical protection. In particular, this protection should not hinder research into cryptography;

30ter. The legal protection of technological measures is without prejudice to the application of any national provisions which may prohibit the private possession of devices, products or components for the circumvention of technological measures;

31. Such a harmonised legal protection does not affect the specific provisions of protection provided for by Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, as amended by Directive 93/98/EEC. In particular, it should not apply to the protection of technological measures used in connection with computer programs, which is exclusively addressed in that Directive. It should not inhibit nor prevent the development or use of any means of circumvention a technological measure that is necessary to enable acts undertaken in accordance with the terms of 5.3 of Article 6 of Directive 91/250/EEC. Articles 5 and 6 of that Directive exclusively determine exceptions to the exclusive rights applicable to computer programs.

31bis. The legal protection of technological measures applies without prejudice to public policy, as reflected in Article 5, or public security. Member States should promote voluntary measures taken by rightholders, including the conclusion and implementation of agreements between rightholders and other parties concerned, to accommodate achieving the objectives of certain exceptions or limitations provided for in national law in accordance with this Directive. In the absence of such voluntary measures or agreements within a reasonable period of time, Member States should take appropriate measures to ensure that rightholders provide beneficiaries of such exceptions or limitations with appropriate means of benefiting from them, by modifying an implemented technological protection measure or by other means. In order to prevent abuse of such measures taken by rightholder, including in the framework of agreements, or taken by a Member State, any technological protection measures applied in implementation of such measures should enjoy legal protection. The provisions of Article 6.4, first and second paragraphs, should not apply to works or other subject matter made available on agreed contractual terms to the members of the public on demand.

31ter. When implementing an exception or limitation for private copying in accordance with Article 5.2b, Member States should likewise promote the use

of voluntary measures to accommodate achieving the objectives of such exception or limitation. If, within a reasonable period of time, no such voluntary measures to make reproduction for private use possible have been taken, Member States may take measures to enable beneficiaries of the exception or limitation concerned to benefit from it. Voluntary measures taken by rightholders, including agreements between rightholders and other parties concerned, as well as measures taken by Member States, do not prevent rightholders from using technological measures, which are consistent with the exceptions or limitations on private copying in national law in accordance with Article 5.2b, taking account of the condition of fair compensation under Article 5.2b, and the possible differentiation between various conditions of use in accordance with Article 5.4, such as controlling the number of reproductions. In order to prevent abuse of such measures, any technological measures applied in their implementation should enjoy legal protection.

. . .

Chapter III
Protection of technological measures and rights-management information

Article 6
Obligations as to technological measures

(1) Member States shall provide adequate legal protection against the circumvention of any effective technological measures, which the person concerned carries out in the knowledge, or with reasonable grounds to know, that he or she pursues that objective.

(2) Member States shall provide adequate legal protection against the manufacture, import, distribution, sale, rental, advertisement for sale or rental, or possession for commercial purposes of devices, products or components or the provision of services which:

- (a) are promoted, advertised or marketed for the purpose of circumvention of, or
- (b) have only a limited commercially significant purpose or use other than to circumvent, or
- (c) are primarily designed, produced, adapted or performed for the purpose of enabling or facilitating the circumvention of, any effective technological measures.

(3) The expression "technological measures", as used in this Article, means any technology, device or component that, in the normal course of its operation, is designed to prevent or restrict acts, in respect of works or other subject matter, which are not authorised by the rightholder of any copyright or any right related to copyright as provided by law or the sui generis right provided for in Chapter III of the European Parliament and Council Directive 96/6/EC.

Technological measures shall be deemed "effective" where the use of a protected work of other subject matter is controlled by the rightholders through application of an access control or protection process, such as encryption, scrambling or other transformation of the work or other subject matter or a copy control mechanism,

which achieves the protection objective.

(4) Notwithstanding the legal protection provided for in paragraph 1, in the absence of voluntary measures by rightholders, including agreements between rightholders and other parties concerned, Member States shall take appropriate measures to ensure that rightholders make available to the beneficiary of an exceptions or limitation provided for in national law in accordance with article 5.2a, 2c, 2d, 2e, 3a, 3b or 3e the means of benefiting from that exception or limitation, to the extent necessary to benefit from that exception or limitation, where that beneficiary has legal access to the protected work or other subject matter concerned.

A Member State may also take such measures in respect of a beneficiary of an exception provided for in accordance with Article 5(2)b [exception for private copying], unless reproduction for private use has already been made possible by rightholdersto the extent necessary to benefit from the exception concerned and in accordance with the provisions of Article 5(2)b and (4), without preventing rightholders from adopting measures regarding the number of reproductions, in accordance with these provisions.

The technological protection measures applied voluntarily by rightholders, including those applied in implementation of voluntary agreements, or technological protections measures applied in implementation of the measures taken by Member States, enjoy the legal protection provided for in paragraph 1.

The provisions of Article 6(4), first and second paragraphs, shall not apply to works or other subject matter made available to the public on agreed contractual terms in such a way that members of the public may access them from a place and at a time individually chosen by them.

This paragraph shall apply mutatis mutandis to Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases.

NOTES AND QUESTIONS

1. The phrase *mutatis mutandis* appearing in the last sentence of article 6(4) (literally, those things having been changed which should be changed) is used frequently by European policy makers. In essence, it means that an existing principle should be applied with only those changes made that are necessary for it to fit the current context. Why would a legislator choose to use this phrase rather than spelling out explicitly the changes he or she wished to make? What are the implications of this technique? See, for example, the EU submissions to WIPO for the proposed new instrument on audiovisual performers' rights (proposing an approach based on the WPPT *mutatis mutandis*).

2. As in the United States, European legislators have not been willing to rely solely on legislative language to resolve the policy issues involved in the prohibition of circumvention. Thus, the Copyright Directive also includes a

requirement that the Commission prepare a report on the application of the Directive, including in particular whether Article 6 confers a sufficient level of protection and whether acts permitted by law are being adversely affected by the use of technological measures. Article 11(2).

3. The Directive will go to the European Parliament for a second reading sometime in the fall of 2000. The provisions of Article 6 remain controversial, and at present, it is unclear whether the Parliament will propose changes, and if so, what they will be.

4. The treaties may also affect the shaping of national laws on exceptions and limitations. As legislators begin the process of adapting existing exceptions and limitations to the digital environment, they must be mindful of not only the 3-step test but the Agreed Statement, which approves such a process of adaptation, as well as the establishment of new exceptions and limitations, with the repeated proviso that the result must be "appropriate." So far, new and extended exceptions for the digital environment have involved primarily issues of temporary reproductions, discussed above at ___, and library preservation and loan activities, see, e.g., U.S. DMCA § 404 (amending § 108 of the Copyright Act). See also U.S. Copyright Office Report on Copyright and Digital Distance Education (1999) (recommending extension of §110(2) exemption for nonprofit instructional broadcasting to cover digital transmissions). Other discussions have focused on whether existing exemptions, such as for private copying, should be narrowed in the digital environment because their impact on rightholders' interests may be greater. See above at ___.

4. Issues on the international agenda

a. Audiovisual Performers' Rights

As noted above, audiovisual performers were omitted from the scope of the WPPT in 1996. Instead, a resolution was adopted calling for negotiation of a protocol to the WPPT by the end of 1998. Since that time, discussions have proceeded in the relevant Committee of Experts at WIPO, and a Diplomatic Conference has now been scheduled to take place in December 2000 in Geneva.

At this point, considerable agreement has been reached on many of the issues. First and most important is the fact that countries have agreed on the desirability of establishing a modern and effective international framework for audiovisual performers' rights—a breakthrough from past positions. As to the contents of the treaty, there is agreement on a number of the rights to be granted, including rights of fixation, reproduction, distribution, and the making available right (i.e., the right to control on-demand transmissions). There is even agreement that moral rights in some form should be included. As to the term of protection and the standards for exceptions and limitations, there is agreement that the WPPT rules should apply. Finally, the technological adjuncts contained in the WCT and WPPT (anti-circumvention and rights management information) will be included as well.

The major substantive points of contention involve the inclusion and scope of broadcasting and communication rights, the scope of moral rights, how to deal with the contractual relationships and transfers of rights between producers

and performers, retroactive application of rights to preexisting performances, and national treatment. (Other issues involve the relationship of this treaty to the WPPT; whether a rental right will be included and if so, in what terms; the definition of which performers in a film will be covered, and what the points of attachment will be.) The critical provisions of the basic proposal that will be the starting point for negotiation, prepared by the Chairman of the Committee of Experts, Jukka Liedes of Finland, based on the various submissions of governments, are reproduced below.

BASIC PROPOSAL FOR THE SUBSTANTIVE PROVISIONS OF AN INSTRUMENT ON THE PROTECTION OF AUDIOVISUAL PERFORMANCES TO BE CONSIDERED BY THE DIPLOMATIC CONFERENCE prepared by the Chairman of the Standing Committee on Copyright and Related Rights

Article 4
National Treatment

Alternative C

(1) Each Contracting Party shall accord to nationals of other Contracting Parties, in respect of the subject matter protected under this Treaty, the treatment it accords to its own nationals with regard to:

(i) the rights specifically granted in this Treaty; and

(ii) such additional rights as it accords to its own nationals.

(2) A Contracting Party shall be entitled, in respect of nationals of any other Contracting Party, to limit the protection provided for in subparagraph (ii) of paragraph (1) to the extent to which, and to the term for which, the latter Contracting Party grants such rights to the nationals of the former Contracting Party.

Alternative D

(1) Each Contracting Party shall accord to nationals of other Contracting Parties the treatment it accords to its own nationals with regard to the exclusive rights specifically granted in this Treaty and the right to equitable remuneration provided for in Article 11 of this Treaty.

(2) The obligation provided for in paragraph (1) does not apply to the extent that another Contracting Party makes use of the reservations permitted by Article 11(3) of this Treaty.

Article 5
Moral Rights

(1) Independently of a performer's economic rights, and even after the transfer of those rights, the performer shall have the right

(i) to claim to be identified as the performer of his performances, except where omission is dictated by the manner of the use of the performance; and

(ii) to object to any distortion, mutilation or other modification of his performances that would be prejudicial to his reputation. Modifications consistent with the normal exploitation of a performance in the course of a use authorized by the performer shall not be considered prejudicial to the performer's reputation.

(2) The rights granted to a performer in accordance with paragraph (1) shall, after his death, be maintained, at least until the expiry of the economic rights, and shall be exercisable by the persons or institutions authorized by the legislation of the Contracting Party where protection is claimed. However, those Contracting Parties whose legislation, at the moment of their ratification of or accession to this Treaty, does not provide for protection after the death of the performer of all rights set out in the preceding paragraph may provide that some of these rights will, after his death, cease to be maintained.

(3) The means of redress for safeguarding the rights granted under this Article shall be governed by the legislation of the Contracting Party where protection is claimed.

Article 11
Right of Broadcasting and Communication to the Public

(1) Performers shall enjoy the exclusive right of authorizing the broadcasting and communication to the public of their performances fixed in audiovisual fixations.

(2) Contracting Parties may establish, instead of the right of authorization provided for in paragraph (1), a right to equitable remuneration for the direct or indirect use of performances fixed in audiovisual fixations for broadcasting or for communication to the public. Contracting Parties may in their legislation set conditions for the exercise of the right to equitable remuneration.

(3) Any Contracting Party may in a notification deposited with the Director General of WIPO, declare that it will apply the provisions of paragraph (2) only in respect of certain uses, or that it will limit their application in some other way, or that it will not apply the provisions of paragraphs (1) and (2) at all.

Article 12

Alternative E

Transfer

Once a performer has consented to the incorporation of his performance in an audiovisual fixation, he shall be deemed to have transferred all exclusive rights of authorization provided for in this Treaty with respect to that particular fixation to its producer, subject to written contractual clauses to the contrary.

Alternative F

Entitlement to Exercise Rights

In the absence of written contractual clauses to the contrary, once the performer has consented to the audiovisual fixation of his performance, the producer shall be deemed to be entitled to exercise the exclusive rights of authorization provided for in this Treaty with respect to that particular

fixation.

Alternative G

Law Applicable to Transfers

(1) In the absence of any contractual clauses to the contrary, a transfer to the producer of an audiovisual fixation of a performance, by agreement or operation of law, of any of the exclusive rights of authorization granted under this Treaty, shall be governed by the law of the country most closely connected with the particular audiovisual fixation.

(2) The country most closely connected with a particular audiovisual fixation shall be

(i) the Contracting Party in which the producer of the fixation has his headquarters or habitual residence; or

(ii) where the producer does not have his headquarters or habitual residence in a Contracting Party, or where there is more than one producer, the Contracting Party of which the majority of performers are nationals; or

(iii) where the producer does not have his headquarters or habitual residence in a Contracting Party, or where there is more than one producer, and where there is no single Contracting Party of which a majority of the performers are nationals, the principal Contracting Party in which the photography takes place.

Alternative H

[No such provision]

Article 19
Application in Time

(1) Contracting Parties shall accord the protection granted under this Treaty to fixed performances that exist at the moment of the entry into force of this Treaty and to all performances that occur after the entry into force of this Treaty for each Contracting Party.

(2) Notwithstanding the provisions of paragraph (1), a Contracting Party may choose not to apply the provisions of Articles 6 to 11 of this Treaty to fixed performances that existed at the moment of the entry into force of this Treaty for each Contracting Party. In respect of such Contracting Party, other Contracting Parties may limit the application of Articles 4 and 6 to 11 of this Treaty to performances that occurred after the entry into force of this Treaty.

(3) The protection provided for in this Treaty shall be without prejudice to any acts committed, agreements concluded or rights acquired before the entry into force of this Treaty for each Contracting Party.

(4) Contracting Parties may in their legislation establish transitional provisions under which any person who, prior to the entry into force of this Treaty, engaged in lawful acts with respect to a performance, may undertake with respect to the same performance acts within the scope of the rights provided for in Articles 6 to 11 after the entry into force of this Treaty for the respective

Contracting Parties.

NOTES AND QUESTIONS

1. Why was it so much more difficult to reach agreement on the rights of audiovisual performers at an international level than the rights of performers in phonograms? Why did it take more than three years from the conclusion of the WPPT to be able to agree to the convening of a Diplomatic Conference for this purpose?

2. Throughout the discussions in the Committee of Experts, the EU advocated an approach as close as possible to that of the WPPT (*mutatis mutandis*, as noted above). In particular, it sought identical provisions on moral rights and national treatment, a similar silence on the issue of contractual provisions or transfer, and similar treatment of retroactivity (but omission of the rights of broadcasting and communication to the public). The U.S., in contrast, proposed a number of provisions that were markedly different on these issues. Other governments supported one or the other approach, or made alternative proposals. Compare the provisions of the basic proposal set out above to the corresponding provisions of the WPPT. What are the differences? What reasons underlie the varying approaches?

b. Sui Generis Database Protection

The adoption of the European Database Directive in March 1996 (see above at __) led to consideration at the international level of sui generis protection for databases outside of copyright. Within a few months of the Directive's adoption, the EU submitted for discussion at WIPO a possible treaty on the subject. It pushed for prompt consideration on the same time line as the two treaties that became the WCT and WPPT, taking the view that databases constituted a critical component of the information society and their protection should therefore be an element of the international community's digital agenda.

The United States shortly thereafter submitted its own treaty proposal, similar in many respects to the EU's, but with some differences. This proposal became controversial in the United States as a matter of both substance and procedure, since such protection did not yet exist in U.S. domestic law. (Since that time, several bills have been introduced in the U.S. Congress, but none has yet passed.)

A basic proposal prepared by the Chairman of the Committee of Experts from these two texts (the only ones to be submitted) was also on the table for negotiation at the Diplomatic Conference in December 1996. This proposal was never reached, however, with the three weeks of the Conference entirely consumed by negotiations of the WCT and WPPT. In addition, a number of countries had expressed the view that the issue was not ripe, as they had not yet been convinced of the need for this new form of protection in domestic or international law. The issue was moved to the ongoing agenda of the Standing Committee on Copyright and Related Rights (SCCR), where it has remained ever since. At present, the International Bureau of WIPO is in the process of commissioning a study on the economic impact of sui generis database protection in developing countries and countries in transition.

BASIC PROPOSAL FOR THE SUBSTANTIVE PROVISIONS OF THE TREATY ON INTELLECTUAL PROPERTY IN RESPECT OF DATABASES TO BE CONSIDERED BY THE DIPLOMATIC CONFERENCE

Prepared by the Chairman of the Committees of Experts
on a Possible Protocol to the Berne Convention
and on a Possible Instrument for the Protection of the Rights
of Performers and Producers of Phonograms (Aug. 1996)

Article 1
Scope

(1) Contracting Parties shall protect any database that represents a substantial investment in the collection, assembly, verification, organization or presentation of the contents of the database.
(2) The legal protection set forth in this Treaty extends to a database regardless of the form or medium in which the database is embodied, and regardless of whether or not the database is made available to the public.
(3) The protection granted under this Treaty shall be provided irrespective of any protection provided for a database or its contents by copyright or by other rights granted by Contracting Parties in their national legislation.
(4) The protection under this Treaty shall not extend to any computer program as such, including without limitation any computer program used in the manufacture, operation or maintenance of a database.

Article 2
Definitions

For the purposes of this Treaty:
(i) "database" means a collection of independent works, data or other materials arranged in a systematic or methodical way and capable of being individually accessed by electronic or other means;
(ii) "extraction" means the permanent or temporary transfer of all or a substantial. part of the contents of a database to another medium by any means or in any form;
(iii) "maker of the database" means the natural or legal person or persons with control and responsibility for the undertaking of a substantial investment in making a database;
(iv) "substantial investment" means any qualitatively or quantitatively significant investment of human, financial, technical or other resources in the collection, assembly, verification, organization or presentation of the contents of the database;
(v) "substantial part", in reference to the contents of a database, means any portion of the database, including an accumulation of small portions, that is of qualitative or quantitative significance to the value of the database;
vi) "utilization" means the making available to the public of all or a substantial part of the contents of a database by any means, including by the distribution of copies, by renting, or by on-line or other forms of transmission, including making

the same available to the public at a place and at a time individually chosen by each member of the public.

Article 3
Rights

(1) The maker of a database eligible for protection under this Treaty shall have the right to authorize or prohibit the extraction or utilization of its contents.
(2) Contracting Parties may, in their national legislation, provide that the right of utilization provided for in paragraph (1) does not apply to distribution of the original or any copy of any database that has been sold or the ownership of which has been otherwise transferred in that Contracting Party's territory by or pursuant to authorization.

Article 4
Rightholders

(1) The rights provided under this Treaty shall be owned by the maker of the database.
(2) The rights provided under this Treaty shall be freely transferable.

Article 5
Exceptions

(1) Contracting Parties may, in their national legislation, provide exceptions to or limitations of the rights provided in this Treaty in certain special cases that do not conflict with the normal exploitation of the database and do not unreasonably prejudice the legitimate interests of the rightholder.
(2) It shall be a matter for the national legislation of Contracting Parties to determine the protection that shall be granted to databases made by governmental entities or their agents or employees.

Article 6
Beneficiaries of Protection

(1) Each Contracting Party shall protect according to the terms of this Treaty makers of databases who are nationals of a Contracting Party.
(2) The provisions of paragraph (1) shall also apply to companies, firms and other legal entities formed in accordance with the laws of a Contracting Party or having their registered office, central administration or principal place of business within a Contracting Party; however, where such a company, firm or other legal entity has only its registered office in the territory of a Contracting Party, its operations must be genuinely linked on an on-going basis with the economy of a Contracting Party.

Article 7
National Treatment and Independence of Protection

(1) The maker of a database shall enjoy in respect of the protection provided for in this Treaty, in Contracting Parties other than the Contracting Party of which he is a national, the rights which their respective laws do now or may hereafter grant to their nationals as well as the rights specially granted by this Treaty.
(2) Protection of a database in the Contracting Party of which the maker of the database is a national shall be governed by national legislation.
(3) The enjoyment and the exercise of rights under this Treaty shall be independent of the existence of protection in the Contracting Party of which the maker of a database is a national. Apart from the provisions of this Treaty, the extent of protection, as well as the means and extent of redress, shall be governed exclusively by the laws of the Contracting Party where protection is claimed.
(4) Makers of databases who are not nationals of a Contracting Party but who have their habitual residence in a Contracting Party shall, for the purposes of this Treaty, be assimilated to nationals of that Contracting Party.

Article 8
Term of Protection

(1) The rights provided for in this Treaty shall attach when a database meets the requirements of Article 1(1) and shall endure for at least

Alternative A: 25

Alternative B: 15

years from the first day of January in the year following the date when the database first met the requirements of Article 1(1).
(2) In the case of a database that is made available to the public, in whatever manner, before the expiry of the period provided for in paragraph (1), the term of protection shall endure for at least

Alternative A: 25

Alternative B: 15

years from the first day of January in the year following the date when the database was first made available to the public.
(3) Any substantial change to the database, evaluated qualitatively or quantitatively, including any substantial change resulting from the accumulation of successive additions, deletions, verifications, modifications in organization or presentation, or other alterations, which constitute a new substantial investment, shall qualify the database resulting from such investment for its own term of protection.

Article 9
Formalities

The enjoyment and exercise of the rights provided for in this Treaty shall not be subject to any formality.

. . .

Article 11
Application in Time

(1) Contracting Parties shall also grant protection pursuant to this Treaty in respect of databases that met the requirements of Article 1(1) at the date of the entry into force of this Treaty for each Contracting Party. The duration of such protection shall be determined by the provisions of Article 8.
(2) The protection provided for in paragraph (1) shall be without prejudice to any acts concluded or rights acquired before the entry into force of this Treaty in each Contracting Party.
(3) A Contracting Party may provide for conditions under which copies of databases which were lawfully made before the date of the entry into force of this Treaty for that Contracting Party may be distributed to the public, provided that such provisions do not allow distribution for a period longer than two years from that date.

Article 12
Relation to Other Legal Provisions

The protection accorded under this Treaty shall be without prejudice to any other rights in, or obligations with respect to, a database or its contents, including laws in respect of copyright, rights related to copyright, patent, trademark, design rights, antitrust or competition, trade secrets, data protection and privacy, access to public documents and the law of contract.

NOTES AND QUESTIONS

1. To a large extent, the international discussions can today be characterized as being on hold until the United States determines its own internal policy through adoption or clear rejection of national legislation on the subject. If legislation is enacted in the United States, it seems likely that it will be based on concepts of misappropriation and unfair competition rather than the exclusive property rights approach of the Directive. In that case, the international community will be faced with a choice of different models, and the need to accommodate them both with flexible treaty provisions.

2. Review the concerns expressed in the United States in the context of consideration of database legislation, as described in the Copyright Office Report, supra p. ___. How are these concerns addressed in the draft treaty provisions, above? If the United States were to enact a misappropriation-based database protection law, in what ways would these provisions need to be redrafted for further negotiation at the international level?

c. Broadcasters' Rights

Another issue on the WIPO agenda is the subject of broadcasters' rights. Broadcasters have been urging the adoption of a new treaty, updating and supplementing the Rome Convention and TRIPS Agreement to take into account the impact of new technologies, ensuring the ability to exploit the results of their investments over the Internet and to guard against digital piracy and manipulation of broadcast signals. Governments around the world have expressed interest in

such a treaty, although the details remain to be discussed. Some of the difficult questions will relate to the definition of broadcasting in an era of media convergence and rapid technological change, as well as the interaction of protection for the broadcaster and for the content being broadcast.

The WIPO Standing Committee on Copyright and Related Rights has been discussing this issue too for several years. At present, a schedule has been set calling for governments to submit treaty proposals by the end of January 2001.

d. Electronic Copyright Management Systems

WIPO PRIMER ON INTELLECTUAL PROPERTY AND E-COMMERCE __-__ (2000)

Electronic Copyright Management Systems (ECMS)

. . . . The process of identifying works, determining which rights are associated with them, obtaining the necessary clearances from the corresponding rightsholders and monitoring the use that is made of such works to determine the royalties due (and eventually collect and distribute such royalties), is a complex, resource-intensive and costly affair, particularly in an international context and particularly when the work is intended for use on the Internet.

Four basic methods make up the process of rights management: (1) a method for accessing information concerning works, the rights associated with them and the corresponding rightholders (or agents acting on their behalf); (2) a method for securing permissions from these rightholders for the use of their works; (3) a method for tracking the use made of these works so as to measure the royalties due; and (4) a method for collecting such royalties and ensuring that they are ultimately received by the rightholders.

Any process for global rights management is complicated by a number of factors:

(a) Copyright and related rightholders do not own a single unitary right, but a bundle of different rights (such as the rights of reproduction, distribution, public performance, broadcasting and other communications to the public), which may exist independently from each other and which must all be taken into account.

(b) The creator of a work and the person who owns the rights in it are not necessarily the same person, as rights may be transferred either by statute or by contract, and it then becomes necessary to trace the chain of copyright transfers in order to deal with the current rightsholder.

(c) Copyright and related rights are territorial systems, and therefore the question of rights ownership must be considered for each country in which use of the work is intended.

The two WIPO Internet treaties, the WCT and WPPT, introduce obligations with respect to the integrity of rights management information systems, without specifying how these systems should be developed and operated. In this respect, information technology systems, which enable network-based rights management, hold great promise for addressing the complexities noted above, and for improving the efficiency of rights management in a global

environment such as the Internet.[92] With this in mind, a wide range of entities, including commercial technology enterprises, collecting societies and governments, are currently undertaking projects aimed at developing electronic copyright management systems (ECMS). Although the copyright community has not yet developed a universal set of standards for ECMS, significant progress has been made towards this goal.

An ECMS should consist of a database containing digital copyright works that will be accessible through the Internet. In its simplest form, such a database provides only information about the identity of rightsholders (or their agents), so that any interested person can more easily establish contact with the relevant parties in order to obtain the necessary authorizations. This information is provided by linking each digital work to a unique identifier, such as a number or code.[93] More sophisticated systems can permit the rights in question to be cleared online and, depending on the type of objects in question, allow them to be delivered through the Internet. These more sophisticated systems can incorporate elaborate computerized accounting modules that track and manage the financial aspects of the transactions in an automated manner. Attempts are also being made to formalize most stages of copyright transactions, in order to maximize automated processing.

On a national basis, for example, the Japan Copyright Office is developing the Japan Copyright Information Service (J-CIS), which is a comprehensive database system of copyright management information to cover almost all categories of works, performances and phonograms, in cooperation with relevant associations and organizations. Other governments are also considering the establishment of similar national systems.[94] In the private sector, there are several examples of joint national or regional organizations or projects which manage, or intend to manage, rights or rights information for a large range of different works and objects of related rights.[95]

While current developments in the area of ECMS offer exciting prospects for the future management and administration of rights in the course of electronic commerce, a number of fundamental issues will first need to be resolved. The most important of these issues are:

(a) *Interoperability*. The ECMS currently in development through various private and public sector initiatives are not centrally coordinated. As a result, the systems themselves are neither consistent nor interconnected, and therefore pose problems for interoperability. Interoperability would offer the significant benefit that users could simultaneously perform search and retrieval operations over multiple databases, instead of having to query each one separately to achieve the same result. Interconnectivity would also permit the systems to communicate and exchange information automatically, thus offering important efficiency gains. In order to attain this goal, the ECMS need to be developed on the basis of open "metadata" standards (which enable the network-based handling of different data attached to different categories of works and objects) that are themselves derived from generic models that enable the ECMS to communicate accurately and reliably. One of the leading projects in this connection is INDECS (Interoperability of Data in E-Commerce Systems), which is aimed at obtaining interoperability between different rights management systems in the intellectual property arena.[96]

(b) *Jurisdiction and applicable law.* Network-based rights management highlights the jurisdictional issue, . . . of the tension between, on the one hand, global trade in intellectual property over the Internet and, on the other hand, the need to manage these transactions through a territorially-based legal system. In the course of international rights management, multiple questions arise: Which law applies, for example, to determine the owner of copyright in a particular work, the scope of the rights and the validity of any contractual transfer of rights? The answers to such questions vary from country to country, although a single rights transaction may have legal effect in multiple jurisdictions. This tension focuses attention on the need for harmonization of substantive legal norms, or the development of private international law rules that may adequately take into account intellectual property issues.

(c) *Privacy concerns.* Another issue . . . is the extent to which the tracking and control features that may be incorporated in ECMS can be made compatible with users' privacy concerns. Users may or may not tolerate information concerning their use being communicated to the relevant entities managing copyrights (for example, to ensure that payment based on actual use is received and distributed to the correct owners), and may oppose the same information being made available to others, including the right owners themselves. Certain technologies now offer information that is pertinent for rights management without disclosing the identity of the user.

WIPO's Initiative: In 1994, WIPO initiated discussions regarding the establishment of systems capable of enabling network-based rights management. Currently, the relevant questions are being examined by the Advisory Committee on Management of Copyright and Related Rights in Global Information Networks, which had its first two session in Geneva in 1998 and second session in 1999. At these meetings, representatives from organizations of rightowners and users, in the presence of a number of government representatives, discussed a number of issues including the extent to which different groups of right owners could cooperate (for example, in establishing joint databases and joint rights management systems); whether licensing and fees should apply on a global or a territorial level; how interoperability between the different rights management systems can be achieved; and how to coordinate the necessary development of metadata systems.

Those discussions also addressed the roles that WIPO might appropriately play in this area. WIPO continues to assess whether it may provide administrative coordination, a forum to discuss standards for interoperability, and, where desired by users, practical systems for the interoperability and interconnection of ECMS and the metadata of such systems.

E. Impact of International Law on National Laws and Approaches

Jane C. Ginsburg, THE ROLE OF NATIONAL COPYRIGHT IN AN ERA OF INTERNATIONAL COPYRIGHT NORMS

Paper Presented to ALAI Study Days (Berlin 1999)

Introduction

When Dr. Dietz asked me to address this topic, I inferred that the apparently declaratory title in fact concealed a question mark. (That is, that the title really should read: "*What* Role for National Copyright in an Era of International Copyright Norms?") At first blush, this inference might surprise. After all, it has long been said that there is no such thing as "international copyright." Rather, we have a system of interlocking national copyrights, woven together by the principle of national treatment. Admittedly, the Berne Convention has always imposed a minimum standard as to subject matter and rights protected, but this multilateral overlay scarcely detracted from the traditional image of international copyright as a bundle of national, territorially defined, rights. As a result, the title's suggestion that national copyright laws are an endangered species may seem jarring, if not provocative.

In fact, however, there is good reason to wonder what role national copyright laws do and should have in an era not only of international copyright norms, but of instantaneous transnational communication of copyrighted works. National copyright laws are a component of local cultural and information policies. As such, they express each sovereign nation's aspirations for its citizens' exposure to works of authorship, for their participation in their country's cultural patrimony. But works of authorship have an international vocation, now facilitated by digital communications. Perhaps that simply means that each country's local policies should prevail within its borders, whatever the national origin of the work locally received. On the other hand, the pervasive international dissemination of works of authorship also calls into question the extent to which authors and their works should be subject to different national standards. . . . .

I. The displacement of domestic copyright laws

A. By means of multilateral instruments

1. Berne Convention, the TRIPs Accord, and the Pending WIPO Copyright Treaty

a. The genesis of the Berne Convention: roots of the debate between supranational norms and national treatment

From the outset of the movement for international copyright protection, two distinct principles have vied for primacy. On the one hand, the non discrimination principle of national treatment preserves the integrity of domestic legislation, but ensures that foreign authors will be assimilated to local authors. On the other hand, supranational norms guarantee international uniformity and predictability, and thus enhance the international dissemination of works of authorship. A compromise approach institutes national treatment, but avoids local underprotection by imposing minimum substantive standards that member countries must adopt. The development of the Berne Convention illustrates all three of these approaches.

. . .

b. The 1886 Berne Convention and its successors: the growth of supranational norms

The basic structure of the Berne Convention has remained relatively unchanged throughout each of its revisions. It contains substantive minimum standards of protection, as well as a general directive to accord Unionist authors national treatment. Each subsequent revision of the Berne Convention, from 1896 through 1971, as well as the 1994 Trade Related Aspects of Intellectual Property [TRIPs] accord, and the 1996 WIPO Copyright Treaty [WCT], however, have adopted more substantive minimum standards to which Union members must adhere, while retaining a key "pragmatic" feature: the Berne minima apply to a Union member's protection of works from *other* Berne members; no Berne member is obliged to accord its *own* authors treaty-level protection. Thus domestic norms may continue to apply to purely domestic copyright controversies, although, as a practical matter, local legislators may have difficulty justifying better treatment of foreign than domestic authors.[97]

The original Berne Convention provided an explicit, but not exclusive, list of works to be protected. The Berne Convention also defined the conditions for protection, known as points of attachment, and also specified rules governing the term of protection.[98] Subsequent conferences have amended each of these provisions in order to increase the scope of authors' rights. Among the minimum standards that all member countries were required to recognize, the original Berne Convention first established the translation right;[99] more exclusive rights, as well as some optional exceptions, were added over the course of subsequent revisions.[100]

The actual impact of the Berne Convention on national norms also depends on whether or not the member State treats the Convention as self-executing. If it does not, but instead executes its treaty obligations by implementing the substantive dispositions through its national law, there is a risk that the national legislation will not fully conform to the Berne Convention's text.[101]

The adoption by members of the World Trade Organization of the TRIPs accord further extended the Berne Convention minimum standards to countries beyond the Berne Union who are members of the World Trade Organization.[102] The TRIPs accord also imposed new substantive minima, both with respect to subject matter (computer programs and original compilations of data),[103] and to rights protected (rental right).[104] TRIPs also generalizes the conditions for limitations and exceptions to protection.[105] In a significant enhancement to the Berne Convention's substantive minima, the TRIPs accord contains detailed provisions on enforcement of copyright.[106] Thus, while the TRIPs continues to leave to national legislation many details of copyright scope and enforcement, the outline of uniform mandatory measures has become increasingly explicit. The place of national policy thus shrinks accordingly.

Finally, the 1996 WCT, now open for ratification, not only continues the trend of increased specification of the minimum international content of copyright subject matter and rights, but creates new obligations to protect against the circumvention of technological protection measures, and against the removal or tampering with copyright management information.[107]

While member states may implement these new obligations in different ways, the terms of the new provisions may not leave substantial room for differing interpretations.[1]

2. Harmonization measures within the European Union

[Here Professor Ginsburg describes the European Directives in the field of copyright and related rights, in the excerpt quoted above at p. ___.]

The Directives thus set an overall, often quite detailed, framework guiding national legislators, considerably limiting the opportunities for national variance regarding the scope of copyright protection. I would further suggest that the uniform originality standard adopted in the Directives will come to constrain the freedom of national legislatures to vary the subject matter of copyright. In the case of copyright ownership, by contrast, the Directives do allow Member States a considerably freer hand to allocate rights among authors, employers, and transferees.

. . .

II. What place remains for national copyright norms?

Given the substantial muting of national norms by multilateral instruments, . . . it is now appropriate to inquire what place remains for national copyright norms.

A. Gaps left in the WIPO, WTO, and EU Multilateral Instruments

1. Berne Convention, TRIPs, and WCT

While the multilateral treaties are increasingly comprehensive with respect to the subject matter and scope of copyright, significant gaps remain, particularly with respect to authorship and ownership of copyright. Indeed, apart from the Berne Convention's much-criticized art. 14bis.2,[2] concerning ownership of rights in cinematographic works, none of the three principal treaties contain detailed provisions on copyright ownership.[3] The Berne Convention does, however, announce that authors are "entitled to institute infringement proceedings in the countries of the Union," and that authorship status shall be presumed if the author's name "appear[s] on the work in the usual manner."[4] If authors may enforce copyright, it follows that they are, at least initially, the owners of the rights they seek to enforce. On the other hand, the Berne Convention does not *require* that the actual creator's name appear on the work in the usual manner. As a result, its coverage of "authorship" and ownership is only partial. The TRIPs and the WCT do not supply further guidance.

With respect to the subject matter of copyright, the Berne Convention does not articulate a standard of originality, and thus may leave open the possibility of national variation.[5] TRIPs and the WCT, however, have closed that gap, at least in part, by imposing an "intellectual creation" standard for computer software and databases;[6] as with the E.U.'s "author's own intellectual creation" standard, this threshold for originality may be generalized across copyrighted works.[7] The

TRIPs and WCT also specify that "Copyright protection extends to expressions, and not to ideas, procedures, methods of operation or mathematical concepts as such,"[8] but do not define the excluded elements. As domestic caselaw, at least in the U.S., reveals, courts may differ as to what constitutes an "idea" or "method of operation."[9] Perhaps countries party to the TRIPs and/or WCT will so diverge as well, leaving open the possibility that the same work may be copyrightable in one country, but not another.

With respect to the scope of rights and of exceptions, the 1971 Berne Convention text tended to address specific issues, rather than synthesizing rights and exceptions. The TRIPs and WCT, however, have undertaken the synthesis, and thus have largely filled gaps left by the Berne Convention's rather more pointillist approach.[10] Two significant gaps nonetheless remain. First, although art. 6bis of the Berne Convention requires Union members to protect authors' rights of attribution and of integrity, the TRIPs explicitly excludes art. 6bis from its incorporation of Berne Convention norms.[11]

As a practical matter, this leaves a gap because failure to implement unincorporated Berne Convention norms carries no meaningful sanction, while non compliance with TRIPs obligations can lead to trade sanctions against the recalcitrant country.[1] Second, while the Berne Convention does not specify a right to distribute copies, both the TRIPs and WCT do; both treaties, however, explicitly leave it to member countries to determine under what circumstances, if any, that right will be deemed exhausted.[2]

Finally, it is important to note that the rights concerned are minimum rights: signatory countries may provide for greater rights than those required, so long as they accord national treatment.[3] Similarly, the treaties set forth maximum exceptions: signatory countries *may* restrict the scope of protection, to the extent permitted by the treaties, but signatories are not obliged to impose all (or any) of the limitations that the treaties authorize. This means that multilateral instruments set a floor, but no ceiling, for the scope of copyright protection. National copyright laws thus retain a role to set the upper limits of copyright, by affording greater rights, or by selecting which permitted exceptions to impose.

2. EU Directives

The European Union, however, by imposing certain restrictions on the scope of copyright, and by giving greater detail to permitted exceptions, has constricted the role of national law to vary the height of the ceiling, as we have already seen. On the other hand, if the mandatory exceptions ensure that member States must impose a ceiling on copyright, member States nonetheless may further drop the ceiling by adopting some or all of the various Directives' authorized (as opposed to obligatory) exceptions. For example, one E.U. member State may exempt certain uses of works on behalf of the visually- or hearing-impaired (subject to "equitable compensation"), as authorized by art. 5.3(b) of the Draft Information Society Directive, while another may choose not to limit copyright in that way. Thus, exceptions to copyright remain an area of potential, albeit tempered, disparity within the E.U.

Regarding the rights protected, the Duration Directive specifies that it does not purport to harmonize moral rights; none of the other Directives touch

moral rights, either.[4] Thus, the content, as well as the duration, of rights of attribution, and particularly of integrity, may vary considerably among the fifteen member States.

But the principal gaps in the E.U. regime concern authorship and ownership. The Directives continue to tolerate divergent national laws governing authorship status, initial rights ownership, and presumptions of transfer. With respect to authorship status, for example, the Software Directive and the Database Directive leave to national law the determination of whether the "author" may be a juridical, as well as a natural, person.[5] Those Directives, as well as the Duration Directive, refer to joint works and to collective works, but do not define these terms.[6] Indeed, the Rental Right Directive and the Satellite Directive explicitly permit member States to designate whom, in addition to the principal director, shall be considered a co-author of an audiovisual work.[7] Different national laws may supply differing definitions, not only of who is a co-author, but of the category of joint works. For example, are "joint works" only those in which the contributions are inseparable, or may they also be discrete, but interdependent, as are the music and lyrics comprising a song?[8] It seems that the Directives deliberately avoid more precise definition of joint works. Indeed, the Duration Directive appears to want it both ways: art. 1.4 provides that either the duration for a single authored work, *or* the duration for a work of joint authorship shall apply to "identified authors whose *identified contributions* are included in [collective] works." (Emphasis supplied)[9] To be "identified," the "contributions" would be interdependent, rather than inseparable; the Directive thus leaves it to national law to determine whether such contributions should be considered individual or joint works.

With respect to initial rights ownership, the Software, Duration, and Database Directives allow those member countries that vest initial ownership in collective works (a term the Directives do not define) in juridical persons, to continue to do so.[10]

With respect to presumptions of transfer, the Rental Right Directive permits member States to provide for presumptions of transfer of rental rights from authors to the film producer.[11] The Directives do not require revision of national laws setting forth other presumptions of transfer from authors to film producers, producers of collective works, or other employers or commissioning parties.

. . .

III. What Role *Should* Remain For National Copyright Law in an Era of International Norms?

International uniformity of substantive norms favors the international dissemination of works of authorship. If the goal is to foster the world-widest possible audience for authors in the digital age, then one might conclude that national copyright norms are vestiges of the soon-to-be bygone analog world. But not all copyright exploitations occur over digital networks, and, more importantly, national laws remain relevant, even for the Internet.

Two principal areas for national preservation are copyright ownership and exceptions. But the interplay of these national norms with choice of law rules

should differ. In the case of allocation of ownership rights, the multilateral treaties' and E.U. Directives' deference to national law in matters of copyright ownership indicates that national norms regarding employment or commissioned work relations should prevail. Not only should these norms govern within the territory of the State from which the work originates, but also in other countries in which the work is exploited. Choice of law rules should designate a single applicable law, that of the country with the most significant relationship to the work's creation.[12] Other countries rarely have an interest in contravening employer-employee (or commissioned work) relationships among foreign parties. (To the extent they do, they may assert that interest by way of the *ordre public* exception.) Hence, with respect to copyright ownership, national norms continue to play an important role, but only one national norm per controversy, rather than all national norms simultaneously.

Regarding exceptions to copyright, by contrast, a stronger case may be made for application of each country's laws on its own territory. While international instruments impose a general framework, they preserve some national autonomy regarding the content (and, outside the E.U., the form) of copyright exceptions. Thus, the flexible (perhaps unpredictable) U.S. fair use exception may co-exist with a more rigid continental-style closed list of specific exemptions and limitations.[13] Arguably, the multilateral instruments' tolerance of substantive diversity says nothing about whether a single national norm limiting copyright should apply (for example, the law of the country from which the work is made available to the public, particularly via digital communications), or whether each country of receipt should apply its own norms regarding exceptions and limitations. Several considerations nonetheless point toward discrete territorial application of local norms limiting copyright, even for digital transmissions.

National legislatures establish copyright exceptions for the benefit of local users. This is particularly true of the "pork barrel" and "subsidy" kinds of limitations.[14] For example, the U.S. may wish (perhaps in contravention of its TRIPs obligations) to exempt small businesses and restaurants from paying performance rights royalties for radio and television performances;[15] there is no reason that this solicitude should benefit restaurants outside the U.S. Or the German federal legislature may compel authors to subsidize German schools by subjecting works used in school anthologies to compulsory licensing;[16] there is no reason this subsidy should extend to schools outside Germany, in countries that lack similar provisions.

Even with respect to free speech-motivated exceptions, such as criticism, commentary and parody, in the absence of greater international harmonization, local norms should determine how much free or price-controlled use the exception permits. For example, the Draft Information Society Directive permits quotation for purposes of criticism or review, if the use is "in accordance with fair practice, and to the extent required by the specific purpose."[17] Fair practice according to each member State's norms? According to a harmonized E.U. norm? National norms of fairness may differ: for example, the *revue de presse* may be a tradition in some countries, but not in others.[18] It is not obvious that an extensive *revue de presse* exception in the country from which the work is made available to the public should apply in countries of receipt that lack such an exception.

If the country of a digital communication's origin should not extrude its copyright exceptions to countries of receipt, what about the reverse proposition? Should countries of receipt apply their own exceptions, regardless of the law of the country of departure? Suppose for example, that a U.S. party made available over a digital network (and U.S.-based server) a parody whose copying exceeded U.S. fair use bounds, but was consonant with French practice. Should France apply its exception to parodies received in France? Outside the context of digital communications, for example, were the parody of a U.S. work created or exploited by analog media in France, principles of national treatment would subject the U.S. work to the same copyright limitations as French works incur. While simplicity, and ease of international commerce, counsel against the same result when a work is simultaneously made available in innumerable countries via the Internet, logical consistency would retain the application of the national norm. Moreover, the norm is an expression of the receiving country's cultural and information policy, manifested here by a choice to enhance its residents' exposure to certain kinds of works based on or incorporating portions of copyrighted works (e.g., parody). To the extent that the receiving country can apply its norm, without foisting that norm on other countries, it should be able to do so.

Conclusion

"International copyright" can no longer accurately be described as a "bundle" consisting of many separate sticks, each representing a distinct national law, tied together by a thin ribbon of Berne Convention supranational norms. Today's international copyright more closely resembles a giant squid, whose many national law tentacles emanate from but depend on a large common body of international norms. (At the risk of excessively pursuing this mollusk-ular metaphor, I would further note that the squid's body houses its ink; since we all know what happens when a squid releases its ink, we shall hope that this does not foretell an obscure future for international norms.) In the meantime, while international norms continue to constrain, if not supercede, national copyright laws, some national norms remain significant. Sometimes national norms persist by designed deference to local labor and cultural policies, as seems to be the case with copyright ownership, and may be the case with exceptions and limitations on copyright. Sometimes, however, national norms endure from a failure of the political will of the drafters of multilateral instruments, as may also be the case with exceptions and limitations on copyright.

Gillian Davies, THE CONVERGENCE OF COPYRIGHT AND AUTHORS' RIGHTS – REALITY OR CHIMERA?
26 I.I.C. 964, ___-___ (1995)

Introduction

The distinctions between the principles governing copyright protection in common law countries and those governing authors' rights *(droit d'auteur, derecho de autor, Urheberrecht)* in countries of civil law tradition, have been thrown into sharp relief since 1988 in various contexts. Perhaps the most

important development in the international copyright/ authors' rights world of this period was the adherence of the United States of America to the Berne Convention for the Protection of Literary and Artistic Works (the Berne Convention) in 1989. The US copyright tradition has thereafter had a considerably greater impact than hitherto on international developments in this area and the policy differences between the USA and other Berne Union members have been highlighted.

In the 1990s, that development was followed by the negotiations leading to the adoption in April 1994 of the Agreement on Trade-Related Aspects of Intellectual Property, Including Trade in Counterfeit Goods (the TRIPs Agreement), as part of the GATT Uruguay Round of trade negotiations and the simultaneous discussions under the auspices of WIPO on a possible Protocol to the Berne Convention and a New Instrument for the Protection of Producers of Phonograms and Performers, which are still continuing.[19] The harmonisation programme of the European Commission has also drawn attention to the difficulties of reconciling different approaches to the protection of the various categories of right owners protected by copyright and authors' rights respectively.
. . .

Are the Copyright and Droit d'Auteur Systems Converging?

Having considered the nature of the principal divergences between the systems, the question now to be answered is whether the gap between the two systems has been or is being bridged within the contexts of both the Berne Union and the Rome Convention and as a result of increased intergovernmental cooperation on the subject, in connection with the TRIPs negotiations, the current WIPO legislative programme and, finally, under the harmonisation programme of the European Union. And, if so, to what extent?

Converging Influence of the Berne Convention

Historically, since its adoption in 1886, the Berne Convention and its successive revision conferences served as a forum in which the differences of approach of the civil law and common law systems could generally be accommodated, and the successive Acts of the Convention were framed in such a way as to obtain the adherence of countries of both civil law and common law traditions. The Convention was influenced by national law developments, adding new subject-matter of protection as time went by (e.g. cinematographic works were added to the list of works in Art. 2(l) of the Berne Convention at Brussels in 1948),[3020] and became a harmonising influence on national laws. For example, in the case of the term of protection, increased at Berlin in 1908 to 50 years *p.m.a.,* many countries including Britain and Germany had to amend their laws so as to conform with the Convention. As regards the authorship of films, the Berne Convention provided a compromise according to which the determination of the ownership of copyright in a film was left to national legislation in the country where protection is claimed, thus embracing both the civil law approach of considering the individual creators to be co-authors and the common law approach whereby the producer was recognised as the author.[3021]

Moral rights were not dealt with by the Convention until 1928, when Art.

6[bis] was introduced in the Rome Act of the Convention. As Dworkin has pointed out, this was a compromise draft that was acceptable to the common law countries since it refrained from requiring national copyright laws to contain express moral rights provisions, but also tacitly acknowledged that the protection then offered at common law and equity by the common law countries was adequate for the purposes of the new provision.

The influence of the moral rights provision of the Berne Convention has gradually had an impact on the major common law jurisdictions. The United Kingdom introduced specific protection for moral rights in the 1988 Copyright Act. The United States of America on joining the Berne Union declared that the existing protection afforded authors under a great many common law precedents, state statutes and federal laws satisfied its obligations under Berne, and the moral rights doctrine was not incorporated expressly in US law. Moreover, in 1990, Congress enacted the Visual Artists Rights Act, which affords limited rights of attribution and integrity to a narrowly defined class of visual artists with respect to certain artistic works and photographs.

The United States also brought its legislation into line with the Berne Convention by abolishing the formalities previously required for the subsistence of copyright and by providing for a term of protection based on the life of the author and 50 years thereafter.

There is one area, however, where no consensus has been reached to date in the Berne Union and which remains controversial. When, at successive Berne Convention revision Conferences (Berlin, Rome and Brussels), the British delegation proposed adding sound recordings, protected by copyright in the UK and other common law countries, to the list of works to be protected under Art. 2 of the Convention, the suggestion was rejected.[3022] Throughout that period, the need for specific protection of sound recordings in civil law countries was barely recognised and at the Brussels Conference a resolution was passed suggesting instead that the matter be dealt with separately and considered together with two other candidates for protection, broadcasts and performances. This proposal led, after many years of negotiation, to the adoption of the Rome Convention in 1961 and formalised the basic divergence between the common law and civil law traditions on this issue, creating the new category of rights, rights neighbouring on authors' rights, already referred to.

Diverging Influence of the Rome Convention

Following the adoption of the Rome Convention in 1961, many civil law countries revised their legislation to conform to the categorisation example of the Convention. Thus, countries which had previously incorporated the protection of sound recordings in their authors' rights legislation, often by extension of the existing law to the new category of works by legislation or case law (*see, e.g.,* the cases of Spain[3023] and Germany[3024]) when revising their legislation distinguished clearly between literary and artistic works on the one hand and neighbouring or related rights on the other. Meanwhile, the common law countries continued to protect sound recordings under their copyright laws.[3025] This difference of approach remains a thorny issue, particularly as concerns sound recordings, and has been the subject of dispute during the negotiations on the TRIPs Agreement

and concerning a possible Protocol to the Berne Convention (see below).

There has therefore developed a so-called international classification of rights as reflected in the international conventions - particularly the Berne Convention and the Rome Convention. As WIPO noted in connection with the preparation of a Model Law on Copyright in 1990:

> According to that classification, only the protection of literary and artistic works can be regarded as copyright protection; the protection of any productions not qualifying as literary and artistic works can either be called by their own name, e.g. the protection of performances, phonograms or broadcasts, or be referred to by the said general term - used for the sake of brevity - that is, the protection of neighbouring rights.[3026]

This classification argument overlooks the fact that it is for national legislation to determine what may or may not be considered to be a literary or artistic work under the Berne Convention. The definition of such works in Art. 2(l) is non-limitative and by merely listing examples allows member countries to go further and treat other productions in the literary, scientific and artistic domains as protected works. Moreover, the Rome Convention came into existence as a bridge-building exercise so as to provide a link for national treatment between those countries which protected certain subject-matter by means of copyright and, in many cases, under the Berne Convention, and those who were only prepared to do so under a related right and a separate Convention. It is not therefore a valid argument to suggest that countries are precluded by the existence of the Rome Convention from protecting this subject matter by copyright.

It is also often argued that the safeguard of copyright proper contained in Art. 1 of the Rome Convention establishes a hierarchy of rights and that the rights of beneficiaries of the Convention must be subordinated to the exercise of the rights of authors. It is clear from the General Report of the Diplomatic Conference for the adoption of the Rome Convention that this interpretation is incorrect. Article 1 is limited to making clear that the legal situation of the copyright owner is unaffected. Thus, as the WIPO Guide to the Convention states:

> Whenever, by virtue of the copyright law, the authorisation of the author is necessary for the reproduction or other use of his work, the need for this authorisation is not affected by the Convention. Conversely, when, by virtue of this Convention, the consent of the performer, recorder *[sic]* or broadcaster is necessary, the need for his consent does not disappear because authorisation by the author is also necessary.

However, on the positive side, although the Rome Convention owes its origins to differences in the civil law and common law traditions, in the long run it has exercised a profound influence on the development of national legislation in the field of copyright/authors' rights and related rights. Since at the time the Convention was adopted, there were very few countries whose legislation was in

conformity with it in respect of all three of its beneficiaries, it has often been referred to as a pioneering Convention. Yet today there is hardly a new law passed in this area of law which does not provide protection for the beneficiaries of the Convention, whether by copyright or related rights. The scope of the protection given has tended also in recent years towards a standard similar to that afforded to copyright works proper and is substantially higher than the minimum standards laid down over 30 years ago in the Convention.

Impact of the TRIPs Agreement

The Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods (the TRIPs Agreement), adopted in April 1994 in Marrakesh, as part of the successful outcome of the Uruguay Round of the GATT trade negotiations, contains in Section 1 of Part II, entitled "Standards Concerning the Availability, Scope and Use of Intellectual Property Fights", new international rules for the protection of "copyright and related rights". This is the most recent conventional text adopted in the area of copyright and related rights and its impact on the convergence between the common law and civil law approaches to these rights is therefore of particular interest. . . .

There is little in the TRIPs Agreement to illustrate a narrowing of the gap between the copyright and authors' rights approaches. As Correa has pointed out, "the negotiations in the copyright area were characterised by a North-North confrontation on a number of issues"[3027] including the concept of the author as applied to various works and on the scope of protection accorded to them. The negotiations drew attention, in particular, to copyright policy differences between the United States of America on the one hand and other Berne Union members, including those of the European Union, on the other. The USA proposed a "Berne-Plus" package, including eight issues not covered by the Berne Convention:

(1) the right to control public distribution of copies of works, including parallel imports;
(2) rental rights for computer programs and sound recordings;
(3) a definition of the term "public", in relation to public performance rights;
(4) affirmation of the entitlement of a Member State of the Berne Convention to treat legal entities as authors in domestic legislation;
(5) copyright protection for sound recordings;
(6) an international "fair use" standard;
(7) express incorporation into the Berne Convention of computer programs (as literary works) and data bases (as works that would qualify under the Convention as collections or compilations);
(8) detailed enforcement obligations for the suppression of piracy.

Of these, only items (2), (6), (7) and (8) were expressly achieved. The right to control parallel importation, corporate authorship and copyright for sound recordings were rejected, although related rights to authorise or prohibit reproduction and commercial rental of sound recordings were recognised. In relation to corporate authorship, the US position was accommodated to the extent

that Art. 12 of the TRIPs Agreement provides that, where the term of copyright protection of a work is calculated on a basis other than the life of a natural person, the term should be not less than 50 years. The USA succeeded, however, in its aim of excluding the moral rights provisions of the Berne Convention from the Agreement, so that to this extent it may be described as a "Berne-Minus" text. The proponents of the authors' rights approach ensured that data bases would only merit protection as copyright works if they constituted intellectual creations and that sound recordings remained protected by means of related rights and not as works.

The rights of performers and producers of sound recordings have undoubtedly been strengthened as a result of the TRIPs Agreement in that it will be applicable to a very considerably larger number of States than the Rome Convention, which to date has less than 50 Member States. They will also benefit from a fifty-year term of protection.

The TRIPs Agreement would appear to have achieved the extremely important objective of establishing minimum international standards for the protection of intellectual property, including copyright and authors' rights and certain related rights. It has not, however, established a bridge between the different legal approaches to these latter rights. On the contrary, the negotiations would appear to have provided yet another forum for dogmatic defence of doctrinal differences. Indeed, the negotiations were characterised by what seems to have become a regular feature of intergovernmental discussions on these issues in recent years, namely what Cornish has described as "mutual incomprehension and ... much sterile argument ... over the comparative virtues of different national approaches" and the increasing entrenchment of the proponents of the various approaches in their divergent views.

WIPO Legislative Programme

Model Law on Copyright

The difficulties of reaching agreement on bridging the gap between the copyright and authors' rights approaches have been thrown into sharp relief in the context of the work of WIPO in this area over the past ten years or so. During the 1980s, WIPO held a series of meetings to discuss the copyright problems affecting various categories of works in the light of new technology. These meetings were followed in 1989 and 1990 by three meetings of a Committee of Experts for the purpose of drafting a Model Law on Copyright. Difficulties arose from the outset. As the preparatory document for the last meeting noted: "The main dividing line seemed to be between delegations from countries with 'continental' (or 'Roman') legal traditions and delegations from countries with 'common law' (or 'Anglo-Saxon') traditions." On a number of issues, the advocates of the "continental" approach insisted that the Model Law should be based exclusively on that approach, arguing that only such provisions corresponded to the spirit and letter of the Berne Convention.

An important issue in this respect was sound recordings. As already discussed, many common law countries protect these as copyright works and indeed there are also countries which protect them specifically as literary and

artistic works. There were, therefore, calls for sound recordings to be covered by the model law. WIPO considered them to fall within the category of related or so-called neighbouring rights, however, and described the problem thus:

> The protection of the so-called neighbouring rights is one of the points where the "common law" and the "continental" copyright approaches differ from each other, although the difference seems, in general, more of a terminological nature than of a really substantive one. The notion of "copyright" is used in a wider meaning in countries with "common law" traditions than the one in which this word is used in respect of the Berne Convention . . . In the face of the differing meanings of the notions of "copyright" and "neighbouring rights", the draft model law followed the international classification of the various productions involved as reflected in the international conventions - particularly the Berne Convention and the Rome Convention - administered by WIPO. According to that classification, only the protection of literary and artistic works can be regarded as copyright protection;... [T]he Model Law ... therefore ... should only cover the protection of literary and artistic works and should not extend to the so-called neighbouring rights.

This approach was endorsed by the continental law countries, while the common law countries argued forcefully but in vain for sound recordings to be included, the United States stressing "that the future of the Berne Convention depended, to a large extent, on the constructive coexistence and cooperation between the 'continental' and 'common law' approaches".[3128]

Possible New Protocol to the Berne Convention

The work on the Model Law set the scene for continuing disagreement on these issues in WIPO's subsequent work. Positions had become polarised by the time work began on the proposed new Protocol to the Berne Convention in 1991. It had become apparent by 1990 that there was a need for a new international instrument to update the Berne Convention in order to deal with the technical developments which had emerged since the adoption of the Paris Act 1971 and to remedy shortcomings in the standards of protection set thereby. Thus, the purpose of the Protocol, according to WIPO's programme, was to clarify the existing or establish new international standards where, under the present text of the Berne Convention, doubts existed as to the extent to which the Convention applied to certain subject-matters of protection and certain rights. The desirability of covering the rights of producers of sound recordings in the protocol was also to be examined.

. . . . After the first two meetings [of the Committee of Experts responsible for the Protocol], its terms of reference were modified, mainly because it had not been possible to reach agreement on the inclusion of the protection of producers of sound recordings in the possible Protocol. The outcome of the discussion on this issue was described in the following terms by a US

representative.

> To the United States, the Protocol was not only an instrument that would advance the norms of the Berne Convention. It would also act as a "bridge" convention between countries that favour neighbouring rights protection for sound recordings, and those that favour copyright.... We wanted to reconcile differences between how Europe protects record producers and performers and how we protect authors of sound recordings—in short, a bridge between the principles, of authorship, subject matter and ownership which the US brings to Berne and others have brought to the Rome Convention. It went down in flames. . . .

. . . . A separate Committee of Experts on a Possible Instrument for the Protection of the Rights of Performers and Producers of Phonograms (sound recordings) was established to discuss all questions concerning the effective international protection of the rights of performers and producers of sound recordings. . . .

All this has served only to emphasise and deepen differences of approach and to confirm the international classification of rights according to the continental law system, with a sharp divide between authors' rights and related rights.

Harmonisation Within the European Union

The past twenty years have seen astonishing progress in the harmonisation of the national laws of the present Member States of the European Union in the field of copyright/authors' rights and related rights. . .

Quite apart from any measures taken by the Commission, the individual Member States of the Community have been faced with the need to modernise their laws in the area of copyright/authors' rights and related rights in the light of technical developments and of the new categories, and new uses, of works requiring protection. Thus, since 1974, all twelve of the current Member States of the European Union have legislated in this area. Within the present Union, there are of course representatives of both the common law and continental law approaches to copyright/ authors' rights and the influence of the Commission's harmonisation programme on bridging the gap between the two is discussed below. What is noticeable, however, is the extent to which in the last twenty years the differences in approach to the protection of related rights have narrowed, both under the influence of the Rome Convention and as a result of the phenomenon of piracy of sound recordings which first became a serious problem in the 1970s and drew attention to the need for adequate protection for producers of sound recordings and performers in this context. In 1974, of the then twelve Member States of the European Union, only six provided any specific protection for one or more of the beneficiaries of the Rome Convention, namely Denmark, the Federal Republic of Germany, Ireland, Italy, Spain and the United Kingdom. Of these, only Ireland and the United Kingdom provided any such protection for a period of 50 years. In the meantime, all the present fifteen EU Member States have

legislated to provide a level of protection for the beneficiaries, of the Rome, Convention which is generally higher than the minimum provided for therein. Of the former twelve Member States, only Luxembourg and Spain still have to bring their legislation into line by extending the period of protection afforded to these categories of right owners to 50 years, this already having been achieved in the other ten. Of the three new Member States, Austria needs to prolong the period of protection for broadcasting organisations from 30 to 50 years.

In this respect, therefore, there has been a considerable bridging of the gap between the countries of common and civil law traditions within the European Union, even though producers of sound recordings and broadcasters benefit from copyright protection and are recognised as authors in Ireland and the UK, while in the other Member States they are protected by virtue of related rights. Thus while a difference of philosophy remains, in practice, the level of protection, in terms of rights, duration and remedies, afforded to authors and related rights owners is already similar and this process will be carried further once all Member States have brought their laws into line with the provisions of the various Directives referred to above insofar as they deal with related rights.

In recent years, however, as a result both of decisions of the European Court and of the various Directives referred to above adopted as a result of the copyright harmonisation programme of the European Commission, a bridging of the gap is beginning to be perceived in relation to copyright/authors' rights proper. The first area in which an approximation of the common law and civil law systems can be observed is in the treatment of the issue of originality in Community legislation. Within the Member States, there were as many as three approaches: (i) the common law approach of the UK and Ireland requiring the expenditure of skill, labour and judgement and that the work must originate from the author; (ii) the generally recognised civil law approach according to which the work must be an expression of the personality of the author; (iii) finally, the very high standard set in Germany where a personal intellectual creation is required. There, in interpreting this requirement, the courts have applied qualitative tests concerning the level of skill used, in relation in particular to computer programs.[3129]

In reconciling these standards the computer program Directive defines original as "original in the sense that it is the authors' own intellectual creation" and making it clear that no other criteria are to be applied to determine the eligibility of a computer program for protection. This steers a middle course, ruling out the high standards set by Germany but requiring a higher standard than that of the common law test for originality in that the creation has to be *intellectual*. The same definition of originality has also been used by the Commission in other Directives, in relation to photographs in Art. 6 of the Directive on Duration and to databases in Art. 2(3) of the draft Directive on Databases.

The issue of the authorship of legal entities (corporate authorship) has also arisen in relation to the authorship of films. In the UK and Ireland, the film producer is to date considered the author of the film, whereas in the civil law countries of the Community various creative contributors to the making of the film are considered to be co-authors, subject to presumptions of assignments of their economic rights to the producers. The Community compromised by

providing that "the principal director of a cinematographic or audiovisual work shall be considered as its author or one of its authors. Member States may provide for others to be considered as its co-authors" (Rental Directive, Art. 2(2)). This definition has been repeated in the Satellite Directive (Art- 1(5)) and in the Directive on Duration (Art. 2(l)). This compromise will enable the UK and Ireland to continue to treat the producer as the author of a film but will force them to change their laws in order to provide that the principal director of a film is to be considered a co-author.

Finally, compromise has also been reached in relation to works made in the course of employment. In the UK and Ireland (in this case joined by the Netherlands), where a work is made in the course of employment, the employer is deemed to be the copyright owner in the absence of any agreement to the contrary; whereas, in the continental countries copyright vests in the author of the work in the first place. The Computer Program Directive follows the common law approach so far as economic rights are concerned. Article 2(3) reads: "Where a computer program is created by an employee in the execution of his duties or following the instructions given by his employer, the employer exclusively shall be entitled to exercise all economic rights in the program so created unless otherwise provided by contract."

Here the compromise lies in the fact that the moral rights remain with the employee author; although in the case of computer programs this seems a questionable proposition, especially in the light of protection for a duration of 70 years *post mortem auctoris*.

The same solution has been applied in the draft Database Directive for databases made in the course of employment (Art. 3(4)).

However, the dividing line between authors' rights and related rights has been emphasised in the Directive on Duration. The Directive provides for a uniform period of protection of 70 years *p.m.a.* for authors, while as regards related rights, the period of protection is set at 50 years from publication or communication to the public. This poses a problem for Ireland and the United Kingdom, which both protect producers of sound recordings and broadcasters as authors of copyright works. It would seem that the Directive precludes them from granting these right owners protection for 70 years as that would defeat the object of harmonisation. The result will be to introduce a new distinction between various categories of authors under the national laws of these countries.

While the various compromises on matters of principle referred to may not appear very daring, they nevertheless will lead to harmonisation on topics of great importance where the common law and civil law approaches were previously opposed. Standards of originality, corporate authorship and employed authorship are key issues in copyright law. They also go further than any other international harmonisation initiatives to date in bridging the gap between the two approaches. The impact of these developments on the international copyright scene is likely to be important. As Loewenheim has observed: "Even if this process may have direct effects only in the Member States, one should not forget that meanwhile the European Union represents a powerful economic and political factor which is likely to have considerable influence on the future development of copyright in the world." The dominant role of the European Union in this respect has also been noted by Oman, who commented in 1993 on the "forceful

emergence of the Commission of the European Communities as the copyright arbiter of western Europe and the shaper of every copyright law from Dublin to Vladivostok."

V. DISPUTES BETWEEN STATES

In this Chapter, we discuss the different means by which state to state disputes regarding international intellectual property law may be resolved. The conclusion of the TRIPS Agreement, and the incorporation of TRIPS within the WTO dispute settlement system, has revolutionized this subject. There were, however, disputes between states regarding appropriate levels of international intellectual property protection prior to the TRIPS Agreement. We start the chapter with a brief consideration of how disputes were handled before TRIPS, and continue with discussion of the unilateral trade measures adopted by the United States that might be seen as a transitional stage on the road to TRIPS. These materials not only place the TRIPS Agreement in historical perspective, but remain relevant because resort to these alternative means of resolving disputes provides the backdrop against which any rejection, revision or debate about TRIPS and the WTO will take place. The materials also raise in stark relief issues concerning the relationship between developed and developing countries that the conclusion of the TRIPS Agreement may temporarily obscure but which we fully expect to occupy much of the post-TRIPS debate.

A. DISPUTE RESOLUTION IN WIPO-ADMINISTERED TREATIES

Both the leading pre-TRIPS multilateral intellectual property conventions, the Paris Convention and the Berne Convention, made provision for the submission of disputes to the International Court of Justice. *See* Berne Convention, art. 33(1); Paris Convention, art. 28(1). This mechanism was never used. Moreover, no state invoked the doctrine of retaliation and retorsion under public international law, as it could have done where it believed another country was in violation of its treaty obligations. *See* J. H. Reichman, *Enforcing the Enforcement Procedures of the TRIPS Agreement*, 37 VA. J. INT'L L. 335, 339 n.17 (1997). Why do you think that neither the express mechanism of the International Court of Justice referral nor the general remedies of public international intellectual property law were not used?

WIPO has, however, sought to create formalized dispute resolution mechanisms. In particular, prior to the conclusion of TRIPS it convened a Committee of Experts to consider a proposed Dispute Resolution Treaty. Although the Committee of Experts continued to meet post-TRIPS, the accommodation of the Paris and Berne Conventions within the TRIPS/WTO dispute settlement mechanism has made this proposed treaty a lesser priority and it is barely an active issue at WIPO. What relevance might it still have? If you were in charge of setting priorities at WIPO, where would the conclusion of such a treaty fit on your list? Reconsider this question after reading the materials on WTO Dispute Resolution. *See infra* Part C.

B. UNILATERAL TRADE MEASURES

1. The United States: Special 301 Measures

Kim Newby, **THE EFFECTIVENESS OF SPECIAL 301 IN CREATING LONG TERM COPYRIGHT PROTECTION FOR U.S. COMPANIES OVERSEAS,**
21 SYRACUSE J. INT'L L. & COM. 29, 32-62 (1995)

III. The Development of Special 301

In 1974, the United States enacted the Trade Act of 1974 which provides for action to be taken against those trading partners of the U.S. that engage in "unfair competition."[30] Title III of the Act, "Relief From Unfair Trade Practices," expands the ability of the United States to counter offensive trade practices by including, among other sections, Chapter 1, § 301, "Responses to certain trade practices of foreign governments."

Section 301 provided the President with broad authority to retaliate against both unreasonable as well as unjustifiable import restrictions that affect U.S. commerce. . . . Retaliatory measures could include the suspension of trade benefits or the imposition of duties or other import restrictions on the products of the offending foreign country.[§ 301(a)].

The enacting of § 301 was seen as a direct result of Congressional dissatisfaction with the manner in which U.S. trade was being protected under GATT. Trade deficits in the United States were growing and the U.S. economy appeared to be suffering at the expense of the growth of other nations. The Legislative History is instructive in this regard. The History states that:

> The President ought to be able to act or threaten to act under section 301, whether or not such action would be entirely consistent with the General Agreement on Tariffs and Trade. Many GATT articles. . .are either inappropriate in today's economic world or are being observed more often in the breach, to the detriment of the United States. . . . Congress is not urging that the United States undertake wanton or reckless retaliatory action under section 301 in total disdain of applicable international agreements. However, the Committee felt it was necessary to make it clear that the President could act to protect U.S. economic interests whether or not such action was consistent with the articles of an outmoded international agreement initiated by the Executive 25 years ago and never approved by Congress.[31]

Still unhappy with the growing budget deficits, Congress in 1988 enacted the Omnibus Trade and Competitiveness Act. Among the measures taken in this comprehensive trade legislation was an expansion of section 301 powers. The new § 301 takes the power of determining which countries to investigate and retaliate against out of the hands of the President and puts it into the hands of the United States Trade Representative ("USTR").[32] The revised § 301 also imposes strict time limits within which the USTR must act once an offending country is cited; previously no strict time limits were imposed. The corollary to this is that the USTR has no discretion to act once a country is cited; such action is mandatory. [O]ther amendments to § 301 caused significant controversy among U.S. trading partners. . . [including] "Special 301."[33]

. . .

Special 301 . . . addresses only the protection of U.S. intellectual property. . . [It] requires that the USTR prepare an annual list of countries that allow the most flagrant violations of protection for U.S. intellectual property. The process of determining and naming these countries, along with a credible threat of retaliation against them, is the heart of Special 301 . . .

IV. How Special 301 Works

A. Determination of Problem Countries

Each year by a specified time,[34] the USTR must identify countries that deny effective protection of intellectual property or equitable market access to United States persons who rely upon intellectual property protection. In addition, those countries that the USTR determines to be "Priority Foreign Countries" must be identified and reported in the Federal Register.

A Priority Foreign Country is a country: (1) that has the most "onerous or egregious" practices that deny protection or equitable market access; (2) whose practices have the "greatest adverse impact," either actual or potential, on the relevant U.S. products; or (3) that is not engaging in good faith negotiations to provide effective protection of intellectual property rights. [19 U.S.C. § 2242(b)(1)].

In order to make the determination of which countries' practices cause that country to rise to the level of Priority Foreign Country status, the USTR has a number of sources upon which to rely. The statute explicitly provides that the USTR shall confer with the Register of Copyrights, the Commissioner of Patents and Trademarks, and other "appropriate officers of the Federal government," in identifying Priority Foreign Countries. [19 U.S.C. § 2242(b)(2)(A)]. The USTR also must consider any sources that may be available to the USTR and such information as may be submitted to the USTR by interested persons.[35] Congressional hearings to discuss Special 301 are a good source of this information. During these hearings, Congress discusses the successes of Special 301 with the USTR and industry representatives. In addition, testimony is given as to which countries are the most problematic for certain industries with regard to intellectual property protection.[36]

The USTR determines that a country is denying adequate and effective protection of intellectual property rights if non-citizens of that country are denied adequate and effective means under the law to "secure, exercise, and enforce rights" related to intellectual property. [19 U.S.C. § 2242(d)(2)]. A foreign country is deemed to deny fair and equitable market access if that country denies domestic market access to a product protected by copyright, patent or trademark and such denial is through laws or practices that violate provisions of international law or international agreements, or that constitute discriminatory non-tariff trade barriers. [19 U.S.C. § 2242(d)(3)].

Each year the USTR also identifies and publishes "priority watch list" and "watch list" countries. These lists are not required

by statute, but the publishing of these lower level watch lists alerts countries that their practices are being monitored by the USTR. As such, these lists provide a significant deterrent on their own.

B. The Investigation

Once identified as a Priority Foreign Country, within thirty days the USTR must initiate an "investigation" against that country and its offending practices. [19 U.S.C. § 2412(b)(2)(A)]. The only time that an investigation is not required in such situations is when the USTR determines that initiation of the investigation "would be detrimental to United States economic interests."[19 U.S.C. § 2412(b)(2)(A)]. Any decision not to initiate an investigation, however, must be fully documented in a report to Congress. Such report must include the reasons for this decision and the U.S. interests that would be adversely affected by the investigation.[19 U.S.C. § 2412(b)(2)(C)].

[I]t is important to remember that even without the mandatory listing of Priority Foreign Countries under Special 301, Section 301 requires that an investigation be commenced against any country whenever the USTR determines that (1) the rights of the U.S. under trade agreements are being denied or; (2) any policy or practice of a foreign country denies U.S. benefits that it is entitled to under trade agreements, or is unjustifiable and burdens or restricts U.S. commerce. [19 U.S.C. § 2411(a)(1)] Unjustifiable or unreasonable policies or practices explicitly include any act, policy or practice that denies national or most-favored-nation treatment, denies the rights of establishment, or denies adequate and effective protection of intellectual property rights. [19 U.S.C. § 2411(d)(3)(B), (d)(4)(B)].

Under Section 301, an investigation shall be commenced either upon the independent decision of the USTR or upon the receipt of a petition by an interested party that the USTR decides to act upon. The decision to act upon any submitted petition must be made within forty-five days after the date of the USTR's receipt of such petition. [19 U.S.C. § 2412(a)(2)].

In either 301 action, however, once an investigation has been initiated, the USTR is required to request consultations with the foreign country to discuss the offending practices and a resolution of the situation. [19 U.S.C. § 2413(a)(1)] . For matters involving the violation of a bilateral or multilateral trade agreement, the USTR must request that the formal dispute mechanism of the agreement involved be invoked if the two countries are not able to come to an agreement acceptable to the U.S. within a specified period of time. [19 U.S.C. § 2413(a)(2)]. If no formal bilateral or multilateral agreement is involved, the USTR must conduct its investigation, consultations, and negotiations within a period of six months in most cases. This deadline may be extended to nine months if the USTR sees "substantial progress" in the Priority Foreign Country's drafting or implementing of measures that will provide effective protection of intellectual property rights. [19 U.S.C. § 2414(a)(3)(B)]. On the basis of the consultations and negotiations conducted within the statutory deadlines, the USTR must make a final determination. The determination made by the USTR must be published in the Federal Register together with a description of the facts upon which the determination, either to proceed further or drop the matter, was made. [19 U.S.C. § 2414(c)] If the USTR finds that the violations that spawned the investigation do in fact exist and if no substantial progress has been taken by the Priority Foreign Country within the period of investigation, then the USTR must take action. [19 U.S.C. § 2411(a)(1)]. This action generally must be taken within thirty days of the date of determination. [19 U.S.C. § 2415(a)(1)].

C. Taking Responsive Action

The Trade Representative has broad discretionary authority in deciding what actions to take against a Priority Foreign Country. The three main tools that the USTR may invoke are the suspension of trade benefits, the imposition of duties or other import restrictions, and the entering into of binding agreements committing the country either to stop the offending practices or provide the U.S. with compensatory trade benefits. [19 U.S.C. § 2411(c)(1)]. The office of the USTR may choose to focus its actions on the entire Priority Foreign Country, or on particular goods or economic sectors of that country. The fact that not all of that country's goods or sectors of its economy are involved in the particular offending practice complained of does not preclude the USTR from targeting the entire country. [19 U.S.C. § 2411(c)]. The USTR must, however, ensure that any action taken to eliminate a practice is imposed to affect the Priority Foreign Country in an amount that is "equivalent in value to the burden or restriction imposed by that country on United States commerce." [19 U.S.C. § 2411(a)(3)].

Once a measure is chosen, the USTR must monitor the implementation of the measure and any progress the country takes to change its practices to conform to U.S. requests. During monitoring, if the USTR determines that the Priority Foreign Country is not implementing a 301-imposed measure or agreement, the USTR may take further action as authorized in the act. [19 U.S.C. § 2416(b)]. Conversely, if during the monitoring process the Priority Foreign Country removes the offending practices or if the burden on U.S. commerce begins to outweigh the benefits of the measures taken against the Priority Foreign Country, then the USTR may modify or terminate any action taken under 301. [19 U.S.C. § 2417].

Although once the USTR identifies a Priority Foreign Country mandatory action against that country generally is required, action need not be taken in two situations. The first is when an arbitration committee (under GATT or bilateral agreement dispute resolution committees) determines that the practices complained of do not impair benefits to the U.S. under any trade agreement or do not violate rights of the United States. [19 U.S.C. § 2411(a)(2)(A)]. The second situation is when the USTR finds one of the following: (1) that the country has taken or has agreed to take measures to eliminate the offending practices; (2) it is not possible for the country to take such measures, but compensatory trade benefits will be provided to the U.S.; (3) action against the country would have an adverse effect on the U.S. economy out of proportion to the benefits that would be achieved; or (4) action against the country would cause serious harm to the national security of the United States. [19 U.S.C. § 2411(a)(2)(B)]. In these two situations, the USTR has the discretion to decide whether to take action or not.

V. Special 301 in Action

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B. China

China began its Special 301 journey in 1991 when it was one of the first three countries to be named a Priority Foreign Country.[37] Failure to provide adequate patent protection and a marked lack of copyright protection for U.S. works, especially computer software programs, were the driving reasons behind putting China on this list.

Lengthy negotiations between the United States and China resulted in a comprehensive Memorandum of Understanding ("MOU"). This MOU was signed on January 17, 1992, just hours before U.S. retaliatory measures were to be implemented. Articles 1 and 2 of the MOU relate to patent rights. Article 3 sets out the steps China will take to implement an effective, world-standard copyright protection regime. These steps include acceding to the Berne Convention, acceding to the Geneva Convention (protection of phonograms), updating the Chinese Copyright law to meet requirements of these two conventions, and, particularly, clarifying the rights of distribution that applies to all works and sound recordings, including rental rights and the rights of first sale. In addition, China agreed that by the time that China accede[d] to the Berne Convention, China [would] protect computer programs as literary works under the Berne Convention. Article 4 protects trade secrets as provided for under the Paris Convention for Protection of Industrial Property. Article 5 states that both Governments will provide effective measures to prevent infringement of intellectual property rights within their borders and yet in doing so "shall avoid creating obstacles to legitimate trade." Article 6 relates to consultations between the parties, and Article 7 states that as of the date that the MOU is signed, the U.S. will revoke China's designation as a Priority Foreign Country under the Special 301 provisions.

During the 1992 Senate hearings on Special 301, Senator Max Baucus (Mont.) called this result with China "the most important Special 301 victory to date." He stated of the process: "[U.S. trade negotiators] combined hard negotiations, solid deadlines and the credible threat of retaliation to reach this agreement. . . . In the end, they were able to convince China to agree to a regime of intellectual property protection that is in some ways superior to what we were able to win in the draft GATT agreement." In 1992, China was one of eighteen Watch List countries, the lowest level of priority named by the USTR. The signing of an agreement with a country, however, is usually not enough. As stated in the 1993 Senate hearings by the General Counsel of the office of the USTR:

> The 1992 Memorandum of Understanding on intellectual property that was entered into with China, represented an enormous amount of progress with respect to the intellectual property regime of China. Now it will not be self- executing. What I tried to do in my testimony is to say that once other countries have adopted laws, we have to make sure that these laws are real.[38]

During those same hearings, there were calls to put China on the Priority Watch List because of non-transparent rules and regulations.

China was upgraded from the Watch List to a Priority Watch List on November 30, 1993, and was designated as a Priority Foreign Country in 1994. The reasons for this stem from continued lack of enforcement of the measures that Beijing has implemented absent satisfactory progress in enforcement measures. The Chinese were upset at this turn of events and viewed it as a betrayal after they had worked to comply with unilateral U.S. demands.

The USTR's actions towards China in late 1994 and early 1995 showed a marked increase in the level of aggressiveness in pursuit of Special 301 goals. The United States threatened 301-allowed trade sanctions on more than one billion dollars worth of Chinese products as punishment for Chinese lack of enforcement of their intellectual property laws.[39] Even with all this, however, the Business Software Alliance estimates that software piracy in China costs U.S. industry $322 million each year and states that there is a 94% software piracy rate in that country. [cit]. After the U.S. announced its intention, the Chinese threatened retaliatory measures as a response to such trade sanctions.[40] The result was a threatened trade war which ended with a last-minute (actually, past dead-line) agreement. In the agreement, the Chinese continue pledges to crack down on piracy and improve enforcement of existing laws. Although this may be seen as at least a short-term victory for U.S. industry, it remains to be seen if substantive changes will result. One clear consequence, however, is the sharpening of Chinese attitudes towards the United States. Chinese anger and frustration is not just aimed at what they perceive as U.S. meddling in internal Chinese affairs, but also at the lack of [patience] the U.S. trade negotiators have shown. Li Changxu, head of the China United Intellectual Property Investigation Center stated "It's like building a house. You can have the house structure all set up, very beautiful. But then, you need electricity and water pipes. That takes more time."[41] Similar sentiments came from Gao Linghan, Deputy Director of the National Copyright Administration of China: "Give us five years to end this problem. If we can solve these problems in five years, then I think we will have done a good job."

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VI. How Special 301 Is Effective in Developing Copyright Protection Overseas

It is obvious from the above that Special 301 actions grab the targeted country's attention. Being cited on one of the USTR lists and the credible threat of retaliation behind the Special 301 process compel countries to work with the USTR to arrive at a position sufficient, at least, to ward off retaliatory actions. Without the pressure of Special 301 actions against them, Taiwan, China, and Thailand most likely would not have taken steps to strengthen their copyright regimes in the manner that they did from 1989 to present.

One indication of success is that in 1993 it was reported that from the start of the anti-piracy drive in Thailand as a result of U.S. pressure, there has been a 30% increase in sales of legal cassettes there. Likewise, a statement last Spring by the head of the WIPO commended China on the swift progress that country has made in the realm of developing a copyright protection system. As WIPO director-general Arpad Bogsch stated, China has gone from no system just fifteen years ago to one of the most advanced countries in the developing world in this regard. Many of the measures cited as evidence of this progress were measures implemented as a result of U.S. Special 301 pressure.

Another example of Special 301 successes include the Indonesian government involvement in a Business Software Alliance[42] raid on printers in Indonesia. The raids resulted in the confiscation of more than 17,000 illegally printed computer software manuals. As described by one who was involved in the raid: "It was an extraordinarily difficult operation—we had been working for a long time gathering enough information and evidence to persuade the authorities to help and get search warrants,....This time the Indonesian Government was involved in helping us to break the ring and we're confident we'll achieve a favourable result." The reason for the cooperation was that the USTR was hinting at upgrading Indonesia on the Special 301 lists.

In order to justify the unilateral action that Special 301 imposes, the actions may simply be seen as "damages" for breach of an implied trade contract. Trading with the United States on favorable, most-favored-nation terms is a privilege, not a right.[43] If....U.S. copyright owners are not being adequately protected in foreign markets, it is only right to rectify the situation, so the justification may go. As one music industry member put it "[Special 301] has a very simple predicate, that nations who want to trade with us on favorable terms have an obligation to grant us access to their markets and further, to ensure that the products of American ingenuity and creativity are not pirated or counterfeited."

The USTR and supporters of 301 actions further justify this unilateral bullying by insisting that the United States is not the only party that benefits from these actions. One BSA official recognized the role that Special 301 played in Taiwan's recent copyright regime developments, but he also stated that "[the Taiwanese] are developing their own software industry and, while it's fledgling, they're beginning to understand the frustrations of being ripped off." Further, General Counsel at the office of the USTR had this to say about developing countries in general and developments in Mexico in particular:

> If you look around the world, there are some developing nations that have been quite forthcoming in terms of intellectual property protection. Sometimes, as in the example of Mexico, this is in part because their leadership recognizes the advantages to them as a country. They will advance more rapidly if they create a climate where intellectual property is protected. This is a point you made earlier with respect to Thailand. We are obviously pursuing our intellectual property interests because they matter a great deal to our companies and our jobs here and to our industrial and technological strength, but frankly, it is in the interest of these other countries to upgrade their intellectual property as well. It will strengthen their economy.

It may be more likely, however, that Mexico was trying desperately to meet demands of the United States in order to have the [NAFTA] passed through the U.S. Congress. In general, it may be said that each country will eventually find it in its best interest to adopt an effective copyright protection scheme; the United States is making sure that targeted countries find adopting such a scheme in their best interests sooner than might otherwise occur.

There are theoretical bases for this justifying that both the U.S. and the targeted countries benefit. In a 1990 law review article funded by the Pharmaceutical Manufacturers Association, two researchers used regression analysis and other statistical models to show how the level of economic development of a nation corresponds with the level of patent protection afforded by that country.[44] The theory postulates that with effective intellectual property protection a country is able to attract technology into its own economy. The new technology will spread through the country and eventually, through the incentives intellectual property protection provides, local industries will develop. If there is no protection, there is no incentive to develop new technologies or products and "technological backwardness will result."

Although the statistical correlation shown by the analysis in this article may be compelling and . . . may be accurate with regard to some of the countries cited in the article, for example Bulgaria or Poland, . . . it cannot be extended too broadly and certainly cannot be analogized outside the field of patent protection. For example, Germany, with some of the highest rates of computer software piracy is simultaneously one of the world's most developed economies. In addition Taiwan and Thailand, with annual growth rates of 9% and 8% respectively, are consistently cited among the world's worst pirates of intellectual property and appear to be outside the scope of the analysis. Finally, the article cannot explain how the United States' high level of piracy fits in. As General Counsel of the office of the USTR stated in 1992, " . . . In dollar volume, there may be as much intellectual property piracy here in the United States as there is around the world, largely because we have such a large market." The type of analysis found in this law review article may be used in statements by the USTR and President when discussing the possibility of sanctions, and also used by the Congress to justify supporting such actions. One significant problem with such analysis is that it ignores development patterns that may differ from that followed by the United States and other Western, industrialized countries.

In general, it may be true that the long-term benefits of a strong intellectual property regime in a developing country will help stimulate innovation in research and development and production processes. Such developments may lead to a more highly skilled labor force and encourage other nations to invest in and transfer technology to that country. In addition, the benefits in quality to consumers of protected, genuine products may in some instances outweigh the benefits of accessibility to poor quality, inexpensive pirated products. These determinations of the scope, pace, and direction of development, however, are for the governments of each individual country to make.

VII. How Special 301 Is Inappropriate for Developing Copyright Protection Overseas

[S]pecial 301 has been evolving with the "Priority Watch Lists" and "Watch Lists" in addition to the "Priority Foreign Country" listing, and with "out-of-cycle" reviews that may now take place so that the USTR need not wait until one specified date each year to cite the most egregious violators of U.S. intellectual property rights. In enacting this unilateral trade tool, however, the United States ignores the situation and society behind the violations.

Once a country is entered onto a Special 301 list, that country's government enters into negotiations with the United States for the sole purpose of removing the threat of retaliatory sanctions against that country. It is unlikely that within a developing country itself there is a strong lobby to demand or even support increased protection of copyrightable property. Until the government of a country has the political power and will to strengthen its copyright regimes, little will change; until a country itself decides that it is worth the scarce resources of the government to make a stand on increased copyright protection, changes will be incremental and mainly formalistic. Changes in targeted countries often will be just sufficient to prevent the United States from retaliating. And after the threat of retaliation has passed, it is possible that little will be done in the way of follow up—that is until the U.S. returns the next year to complain. This can be seen in the examples of Taiwan, China and Thailand noted above. Each year these countries work to provide the U.S. with indications of progress, but progress has been incremental and even where it has taken place enforcement measures are not commensurate with the improved legislation.

A. The Response of the Developing Countries

Developing countries in particular resent the United States determining what statutory regimes are in that country's best interest. Such countries see the forcing of U.S. copyright regimes upon them as a new form of colonialism. In addition, it is often simply not practical for a developing country to adopt a developed country's standards in such areas. Developing countries generally understand that a strong, western-style copyright regime will eat up resources in the instituting, monitoring and enforcing of such a system. Without access to copied products and processes, both private and public resources must be garnered to finance the research and development necessary to license or replicate expensive methods already developed in other nations. This problem may be particularly acute in the area of education, where access to books, software, and computers is crucial to raise living standards, yet prohibitively expensive within developing countries. The added restrictions on access to technology and products that strong copyright protection regimes impose are considered an unnecessary constraint to development. It is a struggle for a developing country's government to balance imposing such a regime to cater to U.S. demands (and avoid the threat of retaliation) and providing necessary resources to the population.

B. The Response of the Rest of the World

The developing countries are not alone in expressing anger with Special 301 measures. Most of the United States trading partners, both developing countries and industrialized countries, have protested against the unilateral nature of Special 301. The main complaint raised against the United States with regard to Special 301 is that such unilateral measures destroy attempts to maintain a balanced world trading system developed through multilateral negotiations. By adding parties with various positions, multilateral negotiations provide countries in a less strong position support for their views. On the other hand, the United States, with its strong bargaining position, has a perceived unfair advantage when pursuing bilateral negotiations with less developed nations, as it does when it commences a Special 301 action.[45]

India, Japan, France, and Brazil are among the most consistent and vocal opponents of Special 301. Brazil has been adamant in pursuing international condemnation against the United States for perceived violations of GATT agreements by using Special 301. Brazil has filed complaints with GATT authorities stating that Special 301 actions violate U.S. responsibilities under GATT.

On the other hand, the French have been pressing for a European equivalent of Section 301. . . .

It is, in fact, precisely to guard against such escalation of self-interested actions by nations that the multilateral GATT with its "most favored nation" concept was initiated. When the United States pursues unilateral measures and coerces bilateral negotiations under the threat of sanctions, GATT is undermined. The U.S. has consistently been a supporter of GATT and by ignoring GATT most favored nation treatment and dispute resolution mechanisms, the U.S. sends a message that GATT need not be adhered to. It will be difficult for the United States to persuade other nations to enter into further GATT negotiations and abide by GATT provisions if the U.S. is viewed as a flagrant violator of GATT. As one commentator put it, the United States must recognize that its actions are "norm creating" and that the U.S. should encourage behavior that all nations will find acceptable for years to come.[46] The United States may not always be among the world's top trading powers, and it would be in the long-term interest of the U.S. to strive (while it is still on top) to develop an international trade regime that takes more into consideration than the current cries of big business lobbyists. This strategy will benefit the U.S. not only today by developing better relations with our trade partners, but also in the future when the U.S. may require the benefits of a more understanding world trade regime.

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D. An Undermining of U.S. Long-Term Interests

. . . It would be more wise, for the interest of the United States in the future and the harmony of the international trading order now, if the U.S. would consider working with, instead of against, its trading partners to come to mutually acceptable resolutions to trade disagreements.

A world where each country is looking out only for its best interests, even if to the detriment of its allies (a return to the pre-World War II "beggar- thy-neighbor policies" which led in large part to the disintegration of the world economies in the early part of this century) would lead to any particular individual country being worse off. Such activity may further encourage the development of regional trade blocks, where countries could again work to reduce trade barriers among themselves.

Worries of retaliation, or at least a backlash, for Special 301 actions are now a reality in U.S.-China trade relations. Even with the Special 301 tool at its disposal, the U.S. record industry had been hesitant to request action in China. With the assistance of overseas (primarily Hong Kong and Taiwan) equipment and capital, piracy of cassettes, and now CDs, is rampant in China. With the rise of disposable income in China, the demand for music has become enormous (the record market estimate for 1994 is $1 billion). The potential market for U.S. industry is great, both for the marketing of Chinese artists (there are more than 200 record companies in China) and the ever-popular American singers. For this reason, record industry officials had been trying to work with the Chinese both to gain market access and reduce piracy. Now that 301 threats have been made, however, the Chinese may be a long time in welcoming U.S. inroads into this booming consumer market.

[Moreover, Senator Hatch has explained], Chinese retaliation would most likely cost U.S. industries and consumers money in higher tariffs imposed by China, and while U.S. companies would be shut out of the Chinese market due to high costs, tariffs, or out-right restrictions, companies from other nations would take their place in China. Finally, he estimated that if the U.S. enters into such a trade war with China, there would be little incentive for the Chinese to protect the American technology and intellectual property that would remain in China.

One final interesting argument against Special 301 actions is that they will hurt the United States by actually causing targeted countries to become more competitive. As one Columbia University economist stated, such countries "will be a little more original and a little more creative" and, thus, end up beating the U.S. at our own game. Such an argument is short-sighted, at best, but raises the type of concern that argues against forcing change where change is not yet primed to occur.

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VIII. Alternative Solutions to U.S. Copyright Concerns

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[Newby argued that, with respect to nations that are not members of GATT, mostly developing or non-market economies, the United States should strive for a more long-term, mutually acceptable solution than Special 301.] There are two main ways in which to do this. One is through government and government-sponsored measures. The other is through private business measures, with businesses either acting individually or through alliances of companies and industries.

Government activities could involve the governments of the industrially and technologically developed nations contributing to programs that assist nations that want to strengthen their domestic protection of copyrights. Such programs might discuss developing or strengthening copyright legislation and the development of effective enforcement measures. . . .Tight economies in developed countries, however, undoubtedly will limit the time and resources that those countries will be willing to devote to other nations' development.

Private measures involve nothing more basic than U.S. companies working within the countries in which they are having problems. To achieve the most effective and long-term protection in these countries, U.S. owners of copyrights should increase efforts to create the proper climate for protection.

For the time that Levi Strauss was there, it was very successful in China by working directly with the entities involved, both infringers and local authorities.[47] By cultivating relationships and addressing the problem directly, Levi Strauss created a long-term framework in which to resolve infringement problems. Such a strategy, however, requires devotion to a market and insights beyond a short-term gain. In addition, this strategy can only be practicable with a company and a product strong enough to withstand potential infringement when first entering the market.

Likewise, in Thailand, U.S. companies that experience copying of videos and software could work with the major distributors of such goods to ensure that genuine, quality goods are available at a reasonable price. By working directly with corporate purchasers and distributors, U.S. companies can be sure to understand local needs while creating a support network to report and help counter piracy activities. . .

Although there are examples of companies being willing to engage in such activities, it is more realistic to expect such action to be taken by a consortium or alliance of interested companies. The Business Software Alliance provides an example of the core interested companies in the U.S. computer software industry pouring money and time into engaging investigators and attorneys to police the world. Resources may be more beneficially allocated to working with governments to meet their local needs as well as targeting U.S. alliance member concerns. Although this may sound altruistic, it is actually good business sense that considers long-term development and benefits over short-term gains.

One model may be the Taiwanese Information Product Anti-Piracy Union. The union is aimed at intensifying crackdowns on counterfeit computer products and will be patterned after the Business Software Alliance. At present, more than thirty Taiwanese computer software manufacturers have joined the new union. BSA has even agreed to sponsor seminars on software management and other activities promoting protection over piracy. In addition, BSA has offered incentives to encourage Taiwan residents to inform the Alliance of instances of software piracy.

What happens when non-GATT countries still do not cooperate? . . . In deciding what action to take against the country in response to repeated infringing activities, public (global) policy would suggest that the U.S. look at what property is being infringed. Property protected by copyright is as valuable as that protected by trademark or patents, but it may be useful to distinguish between these properties for reasons of public safety and the advancement of a developing country's education and general welfare.

Although many developing countries do not extend patent protection to pharmaceuticals, by enforcing its patent rights on these and other products abroad, the United States ensures that safe, quality products are being distributed to consumers. The strong protection of trademarks abroad likewise ensures the distribution of genuine products to consumers. The false marking of auto parts, electrical appliances, sports equipment, and a range of other products leads consumers to a false sense of safety. Often shoddy, knock-off goods can result in serious health and safety concerns for end-users. In addition, a country cannot claim that the selling of knock-off goods (for example, leather goods, clothing, and jewelry) is economic activity that develops the country. Although such sales may generate enormous profits for pirates and may even increase tourism to a particular country, these industries do little to advance the economy technologically. The United States would be justified in taking unilateral retaliatory actions against such dangerous and predatory practices in non-GATT member countries.

Copyright infringement may be viewed differently. The goods copied may certainly be used to generate profits for pirates, but the ready accessibility of low cost books and software in the economy is of great importance to a nation's overall development. By denying such access with strict copyright protection laws, U.S. companies may be gaining some otherwise "lost" sales, but the harm and retardation on economic advancement may outweigh such speculative, pecuniary gains. By enforcing copyright laws for U.S. companies with trade sanctions and loss of trade privileges, this will further slow the process of development.

More importantly for U.S. businesses, however, copyrighted software and books that are prohibitively costly will not be used by the general population and so a market demand for these items will be slow in developing. The quickest way for a U.S. company to create a long-term demand is to work with the local government and education officials to develop a program of cheap access immediately that will lead to greater profits later on. One example of this would involve a company, or group of companies, working with local educational facilities to develop a program that will use donated or reduced-cost computers and software, but that ties that facility to continue using that company's products, to be paid for after the initial period, for a contracted period of time.

Even with copyright infringement, however, the United States should distinguish between goods used for domestic consumption and those exported for profit. There is no reason to allow countries to export goods based upon U.S. products. Not only does such export activity more clearly reduce potential U.S. sales, it also does little to assist the country in its independent development. The United States should make clear, ideally through multilateral cooperation, that such exporting of pirated goods is not acceptable.

VIII. Conclusion

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At the point when the U.S. desires to pursue a retaliatory action against offending nations, the U.S. should pursue measures sanctioned by the world community, such as a WTO-imposed TRIPS remedy. This way the U.S. can pursue remedies fully without violating trade agreements, and the targeted country will have the spotlight of the world trading community upon it if it does not comply with WTO-imposed measures.

On the private side, U.S. companies must take responsibility for their entrance into a country because their actions in a country, particularly a developing country, often affect the economy of that country and also the way in which the citizens of that country view the United States. . . .

By developing a coherent policy that is consistent and based upon both demands at home and understanding of the situation in many countries abroad, the U.S. can implement its policies with more respect and effectiveness in the world community. In a time of growing trade tensions and increasing regionalism, the United States can best insure its long-term competitiveness in the world economy by pursuing less bullying tactics and working within, not against, other nations to create an integrated world economy.

William P. Alford**, HOW THEORY DOES—AND DOES NOT—MATTER: AMERICAN APPROACHES TO INTELLECTUAL PROPERTY LAW IN EAST ASIA,**
13 UCLA PAC. BASIN L.J. 8, __-__ (1994)

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[I]ntellectual property issues came to prominence in our public life [in part] because of the link forged between them and the growth of our trade deficit during the mid-1980s. To be sure, the United States had begun to experience trade problems from the days of the Vietnam War. They continued to grow, especially vis-a-vis Japan, irrespective of steps we took. What was to change in the 1980s, however, was the assertion by intellectual property producing industries—later picked up by the government—that the unlawful appropriation by others of our intellectual property could in important measure explain our burgeoning trade deficit. If only those making unauthorized use of our intellectual property would instead pay retail price for it, so this thinking went, the revenues so generated would in effect wipe out much of our deficit.

[T]his thinking had a certain allure. Yet, attractive though it may have been, it was premised on a somewhat faulty assumption: namely, that if precluded from making unauthorized copies, alleged infringers would certainly purchase the item at its full retail price, rather than, for example, negotiating a discount, purchasing cheaper alternatives, developing their own surrogates, or simply forgoing it altogether. Proponents of the notion that intellectual property leakage is a central factor in explaining our trade deficit seemed not to understand how unlikely a citizen of the People's Republic of China (P.R.C.) earning fifty dollars a month would be to fork out more than a month's salary to buy even such an outstanding work as Melville Nimmer and Paul Geller's treatise on worldwide copyright. And they slighted the fact that any responsible effort to balance the books would need to take account of the foreign intellectual property that we Americans historically have used without authorization.[48]

Despite its many limitations, however, this vision of reality had a great deal of appeal in government and media circles. For one thing, it was most seemingly cogent in the very parts of the world—East Asia and especially Japan— where we were experiencing many of our largest deficits. For another, it spoke to some of our less attractive, subconscious fears, offering a possible explanation of why people with traditions different from our own—who some here considered less creative and capable than ourselves—were besting us at our own game. And, neatly enough, it did all this by turning one of our greatest vulnerabilities, our seemingly unquenchable thirst for imported goods, into a weapon—namely access to our market—that we could then use against the very people who had purloined our intellectual property, all of whom needed to sell their wares here.

This link between intellectual property and trade, especially concerning East Asia, soon became more than just rhetorical. Indeed, by the mid- to late 1980s, it had become an important element of our public policy. [So the United States created Special 301] and on the multilateral front . . . the United States demanded that the Uruguay Round of the GATT produce a code authorizing trade sanctions in response to intellectual property violations. The United States championed this cause even though many of our trading partners argued that such a step both diminished the authority of existing international bodies in this area—such as the World Intellectual Property Organization and the United Nations Economic, Social and Cultural Organization—and took GATT off in wholly new directions that were not necessarily consistent with its basic purposes and premises.

If anything, this attention to intellectual property in our public arena has become even more conspicuous in recent years. First the Bush administration and now the Clinton administration elevated it into one of the central objectives of American foreign policy generally, and particularly concerning East Asia. . . [W]hile he was Secretary of State, James Baker informed the leadership of the P.R.C. that there were three issues of equal importance that would determine the fate of U.S.-P.R.C. relations: the spread of weapons of mass destruction, human rights, and trade—of which protection for American intellectual property headed the list. Much the same message has been since reaffirmed by the Clinton administration.

I like Mickey Mouse as much as next red-blooded American—indeed, I hope that I can convince the Stanford University Press to have him adorn the cover of my book. However, there is something somehow out of whack about putting the little rodent up there with nuclear war and torture.. . .

III. WHAT THEORY DOES—AND DOES NOT—TELL US

Interestingly, the link forged in the public arena between intellectual property and East Asia by and large has not found a counterpart in academe in this country or elsewhere in the West. With very few exceptions—of whom Dennis Karjala[49] and Charles McManis[50] are among the most notable—American scholars, whether in law or other fields, have simply not paid much heed to this topic.

This notwithstanding, I believe that the principal schools of [intellectual property] thought . . . can be of help in our effort to understand more about intellectual property in East Asia and about U.S. interaction therewith, even if it is in most instances more in a heuristic, rather than definitive, fashion. . .

Let me turn first to economic analysis. . . .One is hard put to look at intellectual property in East Asia without recognizing the importance of economic considerations. To put it in its starkest terms, for example, those nations in East Asia that are the least developed

economically are generally those that accord the least protection to intellectual property, while those that are highly developed economically are, for the most part, the most faithful adherents to something approaching international standards of protection.

Having guided us to this level of insight, however, there are many more particular, but highly significant, questions that economic analysis leaves unanswered, at least to the extent it has been applied to this field of inquiry. Let me pose one or two, perhaps in overly simplistic form, to make my point. I begin with perhaps one of the starkest: is respect for intellectual property rights the result of economic development, a principal cause thereof, or both? If it is the result of economic development, how, for example, does one explain the virtually total absence of any concept of such rights in Tang Dynasty (618 - 906) and Song Dynasty (960-1279) China—for a goodly portion of which China was the world's most economically developed and technologically advanced nation? Our examples need not be only historical. How, for instance, does one explain the ongoing problems that many foreign firms and even some small and middle-sized Japanese enterprises claim to experience in securing their rights in Japan, although it has one of the world's most developed economies?

If, on the other hand, respect for intellectual property rights is most noteworthy as a stimulus,[51] what are we to make of the possibility that Japan, and now China, are flourishing economically because at particular stages of their economic development they liberally made unauthorized use of foreign technology? Indeed, much the same point might be made regarding the United States a century ago. And what are we to make of the fact that Hong Kong, Korea, and Taiwan are far more vibrant economically than Great Britain, Portugal, and Ireland even though ideas of intellectual property rights are far more deeply entrenched, and means of protecting them are far better established, in the latter rather than the former group of nations? Nor need our data in this regard all be modern. We should not forget that it was East Asia—first Korea and then China—that gave the world the printing press and yet neither has done much with copyright until quite recently.

But as interesting as these matters may be, there are even more fundamental issues raised as we think of applying tools of economic analysis. In casting economic considerations—and at their heart, property rights—in a central role, are we not assuming that the definitions and attributes of property rights are uniform world-wide? Is that a wholly warranted assumption? Research on Chinese legal history and recent developments in the P.R.C. suggest that we not rush to judgment here. This is so particularly if we break property into its constituent elements, rather than treat it as an undifferentiated whole that one either has or lacks. And it is even more so if we pause to consider how the availability of remedies and the willingness to invoke them—which are two different things—shape rights in very real and important ways. Indeed, scholars of such different orientations as Critical Legal Studies theorist James Boyle and the historian of Chinese science Nathan Sivin at least implicitly raise the suggestion that far from being universal, it is the ideas of ownership embedded in modern Western intellectual property that are the historical aberrations, and that these ideas have achieved the currency they now enjoy internationally as much because they are backed by great economic might as because of their appeal to our common sense or their innate conceptual force.

Although holding very different views than proponents of economic analysis as to what motivates behavior, scholars who seek to understand intellectual property in more philosophical terms also, at least implicitly, share a basic belief not only in universals—as opposed to more culturally specific factors—but in universals comprised principally of rights. Their ideas are certainly useful in helping us appreciate the link between intellectual property and other rights—and particularly political rights. Copyright in the Anglo-American world originated with the granting of a royal monopoly by the British Throne to the London Stationers Company in return for the latter's suppression of controversial texts. Nonetheless, it appears that, as was the case with the correlation between economic development and respect for intellectual property rights, so too, one finds that the greater a nation's commitment to the overall rights of its populace, the more likely it is to have serious protection for intellectual property. In a way, it would be hard for this to be otherwise—for societies that sharply constrain their citizens' rights are likely to tolerate far less in the way of private expressive activity, and, in any event, the value of whatever property rights these societies may provide is likely to diminish sharply in the absence of mechanisms for their vindication.

But as with connections between economic development and intellectual property rights, scholarly approaches to intellectual property rights grounded in rights theory leave many questions unanswered, especially as we look to East Asia. If there is a link between political and intellectual property rights, why, for example, is it that problems of piracy have become greater in the P.R.C. as the country has become freer politically and economically? And why is it that today there are probably more instances of infringement in South Korea than in the North? There may well be answers to such questions consistent with a rights-oriented approach, but those working in this field have yet to address such questions. And, as was the case with economic analysis, there are the more basic—and I think more difficult to answer—questions as to how proponents of a vision of society grounded in notions of inalienable rights account for countries in which this type of thinking has only lately taken hold, and then not necessarily in precisely the same ways it has in the West.

At first blush, the deconstructionists would seem to have escaped some of the problems of a universalist posture that arguably afflict both economic- and rights-focused approaches. In seeking to show ways in which ideas of copyright are not absolute or preordained, but contingent upon particular historical circumstances, they too make a valuable contribution. Their work makes less inexplicable the fact that Tang China could reach and stay at the pinnacle of the world economically, politically, technologically, and militarily for more than a century without anything resembling intellectual property rights. And although not focused on contemporary U.S.-East Asian relations as such, the abiding lessons of the Critical Legal Studies movement about the linkage of power and legality are instructive as to why intellectual property issues are so prominent on the American diplomatic agenda and why so many East Asian jurisdictions now are adopting such law.

Caution is, however, no less warranted with regard to the deconstructionists than any of the other schools I have been examining. For one thing, notwithstanding their attacks upon Eurocentrism, their work is almost exclusively grounded in the historical experience of Western Europe and the United States. This foundation is then treated, essentially without qualification, as if it were common for all humankind.[52] But if our modern Western conception of authorship is, as Woodmansee, Rose, and others suggest, so clearly a product of Romantic conceptions of individual genius, what are we to make of authorship in East Asian societies which did not experience the Enlightenment, at least directly? How does one account for images of the author, whether in historical times or at present? Are such scholars being sufficiently careful not to project themselves—or an idealized statement of their hopes for their own society—on East Asia? In short, until deconstructionists move beyond a rhetoric of inclusiveness and begin to take other societies more seriously, it may not be unfair to ask whether their vision of the contingent nature of authorship and its concomitant critique of copyright tells us as much about the historical circumstances of a part of today's professorate as it does about the birth of notions of intellectual property rights.

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IV. OF MICKEY (MOUSE AND KANTOR) AND GOOFY

If each of the schools of thought I have briefly sketched above has shortcomings, each, nonetheless, gets us much further than the thinking embodied in U.S. governmental policy toward these issues. . . .

American policy has proceeded on the underlying assumption that a society's commitment to intellectual property protection is not contingent on its level of economic development, commitment to basic rights, or even particular historical circumstances. Rather, it is essentially a question of will. That is, if governments are so inclined or can be sufficiently pressured if they are not so inclined, adherence to something approximating an international standard of intellectual property protection will be relatively forthcoming.

As flawed as this vision is, it seems to me that one cannot dismiss it out of hand as one seeks to understand intellectual property in East Asia. The history of the West's relations with East Asia over the past century and a half is replete with examples of the impact of might, even when it has not made right. And one would be disingenuous when assessing intellectual property developments in the ROC and Korea—and even in Japan and the P.R.C—to ignore the impact of threats to limit access to the American market.

Once again, however, caution is warranted. [Both the USTR and their counterparts in the P.R.C.] display an extraordinary faith in formal legality and a corresponding inattention to what motivates behavior. Each, in their own way, even if only for political effect,

vests enormous significance in the mere articulation of new rules—as if promulgating new intellectual property laws and exhortations to follow them from Beijing were tantamount to changing the way in which people in the provinces conduct themselves on a daily basis.[53] Indeed, in my more perverse moments, I am tempted to write an article entitled "Why China Has Too Much Law—And Too Little Legality."

The folly in believing that the rapid-fire issuance of an elaborate web of formal new rules on intellectual property, brought about chiefly through external pressure, will swiftly transform long-standing attitudes and practices comes into sharper focus if we consider recent Chinese trends. A good case can be made that since the United States began to apply considerable pressure to the P.R.C. on this front, infringement of American copyrighted and trademarked items has at least held steady, if not increased significantly. However, in fairness, it should be noted that the reasons for this may have as much to do with the P.R.C.'s liberalization—which has been substantial with respect to markets and more modest politically—as with U.S. policy as such. . . .

But the real deficiencies of vision in U.S. policy are not those of . . . the policy's inability to deliver promised results. They are even more fundamental, lying in this policy's utter failure honestly and carefully to think through what might engender a genuine and sustained respect for intellectual property or any other type of rights in China—or, for that matter, anywhere else. The effort to foster serious, widespread, long-term adherence to something approximating an international level of protection for intellectual property, after all, entails significant transformations in a people's attitudes toward intellectual creation, toward property, toward rights, toward the vindication of such rights through formal legal action, toward government, and so forth. Without apologizing for indifference or deception on the Chinese side, how can we realistically expect that such attitudes will change overnight or that the institutions needed to nurture and support them will suddenly emerge, particularly if there is any truth to suggestions that adherence to intellectual property is correlated either to economic development or political openness or is shaped by culture. Even in our own society, which is economically mature, politically open, and born of the very culture that gave the concept of intellectual property to the world, respect for such rights was a long time in coming and is still far from being universal. Indeed, as Dennis Karjala suggests, there remain very real and legitimate disagreements amongst us as to how to balance protection for intellectual property with the access to data needed to spur further innovation and ensure the citizenry's full participation in our democratic polity.

These, however, are not the only costs to an American policy that consists of little more than crude threats and to the psychology that underlies it. Our policy on intellectual property toward China, or other parts of East Asia, does not occur in a vacuum. The tactics we have been using—and even celebrating— resonate all too much of a past in which the United States and other foreign powers undertook many an act having a great impact on the nations of East Asia in the name of making the world safe for our concerns, including intellectual property. Some such measures were no doubt of value to all involved, but others were of questionable morality and limited efficacy. Without suggesting history will necessarily repeat itself, it might not be a bad idea for our policy makers to look at why earlier foreign efforts at the turn of the century and again in the 1920s and the 1940s through the 1980s to press Chinese society to adopt an idealized version of intellectual property law were failures.

If our policy makers had a better appreciation of the historical context of their actions, they might not only be more tactically adept, but they might also more fully comprehend the depth of bitterness that recent U.S. measures evoke and therefore better understand the impact of our intellectual property policy on broader relations between our nation and those of East Asia. To make this point is not to subscribe to a victimization theory that seeks to excuse any and all Chinese actions today because of what may have happened a century ago. Instead, it is to urge that we take full heed of the impact of what we are doing. To give but one example, when I spoke on U.S.-ROC intellectual property negotiations at National Taiwan University in 1991, the topic prompted an extraordinary reaction: senior government officials cried publicly in frustration at the humiliation they believed they had experienced at the hands of U.S. negotiators, and serious lawyers and scholars castigated prominent Chinese attorneys who assisted U.S. interests as traitors to Taiwan (Taijian).[54]

Clearly, our government's determination to place so much emphasis on intellectual property issues and so readily to resort to pressure to achieve objectives in this area limits what it can expect to achieve in other crucial dimensions of our relations—particularly when dealing with a nation as powerful as the P.R.C. It was saddening to see the Bush administration—which staunchly resisted efforts to address strongly human rights problems in China on the grounds that we should not be interfering in their sovereign affairs—threatening the Chinese with almost one billion dollars of punitive tariffs, opposition to the P.R.C.'s GATT bid, and an end to most favored nation (MFN) status if they did not agree to revise their intellectual property law to our satisfaction and on a schedule essentially of our liking. Much the same point can be made regarding the present administration . . .

V. CONCLUSION

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[In applying the major scholarly approaches toward intellectual property to the East Asian situation,] I do hope . . . that we will remain vigilant as to the basic terms we use and take nothing for granted. . . .When we mention property, we should be mindful of which of its many attributes or constituent elements we are speaking. When we endeavor to explain a phenomenon by reference to culture, let us not take it as a static monolith throughout East Asia, but instead realize its immense variety over time, across national boundaries, and among different people within any country. When we speak of interests, whose interests are we concerned with and at what cost to those of others? And when we refer to intellectual property law, do we mean formal doctrine or the manner in which the law plays itself out in society—and if the latter, how are we to measure it?

NOTES AND QUESTIONS

1. Review the purposes of the Trade Act of 1974 set out in note 25 of the Newby article. To what extent do you think those stated purposes accurately reflect what Congress was seeking to achieve in 1988? *See* Robert Burrell, *A Case Study in Cultural Imperialism: The Imposition of Copyright on China by the West*, in 3 PERSPECTIVES IN INTELLECTUAL PROPERTY 195, 213 (1998) (discussing broader political concerns). Have the steps taken under Special 301 furthered those purposes? To what extent are the purposes of the Trade Act consistent with the stated purposes of TRIPS? *See* United States—Sections 301-310 of the Trade Act of 1974, WT/DS152/R (Panel Report Dec. 22, 1999). To what extent are they consistent with the purposes of intellectual property law?

2. Special 301 was in part a response to the inadequacies of the GATT pre-1994. It may therefore have accelerated the conceptual shift to enforceable minimum standards found in the TRIPS Agreement. Viewed in that light, can Special 301 be hailed as an unqualified success? Newby complains that progress in developing countries acting under pressure from the United States has been "incremental". Is this a fair criticism?

3. Review the demands made of China in 1991. To what extent can these demands be characterized as demands to comply with applicable international intellectual property standards at the time? In what ways did they go beyond that? If the United States was not asking China to adhere to extant standards of international intellectual property law, what was it asking? Was that appropriate or justified?

4. Some scholars have described aggressive unilateral trade measures such as Special 301 as "cultural imperialism" when applied to countries such as China. *See* Robert Burrell, *A Case Study in Cultural Imperialism: The Imposition of Copyright on China by the West*, in 3 PERSPECTIVES IN INTELLECTUAL PROPERTY 195(1998). What is it about that Special 301 that arguably permits its characterization as "imperialistic"? Is cultural domination of developing countries by the developed countries of the West more likely with or without intellectual property protection? Does the answer vary as between different forms of intellectual property? Is the dynamic of cultural subordination, which makes some European countries fear international laws that facilitate the expansion of American pop culture, different as between two developed countries?

5. China had a vibrant commercial publishing industry for popular works of fiction, drama, and religious tracts at least from the end of the ninth century, which regularly received official patronage and commi ssions, and suffered the attendant injuries from economic competitors. Consider the following:

> In the work Fangyu Shenglan (A [Grand Tour] of the Territories) compiled by Zhu Mu of the Song Dynasty (960-1279), there [is] placed after the compiler's preface a "Notice Issued by the Viceroy of Zhejiang [province]" which says that the book is the result of the compiler's "assiduous labour of a lifetime and cannot be compared with the plagiarisms by others," [and] whereas "there are recently people in the book market hankering after gains, who are incapable of compiling works based on their own views but devote their efforts to reprinting", [therefore] "a public notice is hereby issued jointly by the viceroy of Zhejiang and the governor of East Zhejiang prohibiting reprinting activities; and if anyone reprints the work for profit, Zhu has the right to "report the act, track down the offender, destroy the plates and enforce the ban, so as to stop acts of piracy."

Zheng Chengsi, *Further on Copyright Protection in Ancient China*, CHINA PATENTS AND TRADEMARKS QUARTERLY 62, 63 (October 1996). Note particularly the references to "plagiarism" (piaoqie) and "piracy" (fankan zhihuan - literally "harmful reprints"). Might stopping others from reprinting books for profit or other forms of "free riding" be more universal than cultural critics suggest? *See also* Graziella M. Sarno, Comment: *Viet Nam or Bust: Why Trademark Pirates are Leaving China for Better Opportunities in Viet Nam*, 14 DICK. J. INT'L L. 291 (1996).

6. Was the Chinese Government justifiably irked with the impatience of the United States negotiators in 1995? If you had been negotiating on behalf of the Chinese Government, how might you have best conveyed the sentiment that it takes time to bring an intellectual property system into compliance with international standards? *Cf.* Robert Burrell, *A Case Study in Cultural Imperialism: The Imposition of Copyright on China by the West*, in 3 PERSPECTIVES IN INTELLECTUAL PROPERTY 195, 207-08 (1998) (discussing development of the Universal Copyright Convention). If you had been negotiating on behalf of the U.S. Trade Representative, how might you have approached the task of persuading the Chinese negotiators that providing the intellectual property protection sought by the United States was in China's best interests? Does the instrumentalist nature of U.S. intellectual property protection make it harder to assert the inherent propriety of enhanced intellectual property protection? Are there other explanations of intellectual property that might offer more persuasive justifications? (And are those other explanations of intellectual property persuasive?)

7. Newby writes that "in general, it may be said that each country will eventually find it in its best interest to adopt an effective copyright protection scheme; the United States is making sure that targeted countries find adopting such a scheme in their best interests sooner than might otherwise occur." What are the costs and benefits of ensuring that "targeted countries find adopting such a scheme in their best interests sooner than might otherwise occur"? If the date at which it would have been in a country's best interests to reach a mature system of copyright protection was 20 years hence, what is the effect of altering "incentives" such that it implements that system immediately? Does this ensure (or at least assist) that country in capturing the benefits of copyright protection 20 years earlier than would otherwise have been the case?

8. How does one answer Professor Alford's question: is respect for intellectual property rights the result of economic development, a principal cause thereof, or both? To what extent can intellectual property laws dictate cultural attitudes? Are the historical and contemporary examples that Professor Alford cites of economically and technologically societies operating without intellectual property rights compelling? Can one explain those examples? Do we have to be able to explain those examples before acting as the U.S.T.R. has acted?

9. The debate between the United States and China regarding the latter's protection of intellectual property did not end with the February 25, 1995, agreement. On May 15, 1996, based on monitoring of the agreement's implementation carried out under section 306(a) of the Trade Act, the USTR expressed dissatisfaction with implementation of the agreement and proposed yet again to impose prohibitive tariffs on imports of certain products from China. This crisis was resolved with another agreement on June 17, 1996. In its 1999 Annual Report, the USTR concluded that "China now has a functioning system capable of protecting intellectual property rights. China has made progress on software end-user piracy including the recent issuance of a State Council directive to all government ministries mandating that only legitimate software be used in government and quasi-government agencies. Enforcement of intellectual property rights has become part of China's nationwide anti-crime campaign; the Chinese police and court system have become involved in combating IPR piracy. The production of pirated copyrighted works has dropped dramatically." The report also noted, however, that "retail piracy and counterfeit goods remain widespread in China. And that the structure of IPR administration and enforcement in China remains opaque. Enforcement at the provincial level is sporadic. Corruption remains a problem and convictions only occasionally result in jail time."

10. To what extent can the use by the United States of Special 301 powers be described as "imposing foreign law" on other countries? In what circumstances might such "imposition" be justified? In what circumstances might it be wise as a matter of U.S. policy? Might there be circumstances where use of Special 301 might be justified but not wise?

11. To what extent should the United States take into account "development patterns that may differ from that followed by the United States and other Western, industrialized countries" in requiring the enactment of intellectual property protection? How should those differences be balanced against the claims of U.S. industries that they are suffering huge losses as a result of piracy? How do you balance respect for the sovereignty of other nations with the protection of domestic industries? Can that analysis be performed in the abstract? What do you think of Newby's alternative suggestions for addressing perceived inadequacies in intellectual property protection? *Cf.* Robert Burrell, *A Case Study in Cultural Imperialism: The Imposition of Copyright on China by the West*, in 3 PERSPECTIVES IN INTELLECTUAL PROPERTY 195, 201 (1998) (arguing that "there would seem to be little point in trying to force China to adopt a system of property relations which will inevitably emerge with the development of China's economic base"). Would these be more effective than use of Special 301? Would they be more appropriate? Is Newby correct that certain inadequacies in intellectual property protection warrant greater immediate attention than others? What should those priorities be?

12. If there is, as Alford suggests, a connection between respect for intellectual property and respect for individual rights generally, should that affect the policy of the United States toward countries that are perceived as offering inadequate intellectual property protection? If so, how should that affect the conduct of international intellectual property relations? How should the United States respond to news that Chinese citizens have been executed for counterfeiting? In what ways, and by emphasizing which priorities, could U.S. international intellectual property policy accommodate both goals? Can Special 301 measures against China be justified as supportive of human rights? Will greater respect for human rights bring greater protection of intellectual property, or will enhanced protection for intellectual property lead to greater respect for human rights? What is the connection between the two?

13. What is the significance of the statement by former WIPO director-general Arpad Bogsch that "China has gone from no system just fifteen years ago to one of the most advanced countries in the developing world"? What does Dr. Bogsch mean by "no system" and "one of the mo st advanced"? What does that change portend for the long-term health of intellectual property protection in China?

14. How does one avoid infusing this discussion with a culturally-contingent set of values regarding individual ownership, the roots of creativity, or the relevance of free information? Can one? If not, should we abandon the endeavor?

15. In November 1999, the United States and China reached a trade agreement designed to facilitate China's entry into the WTO. China agreed to a wide-ranging set of market access reforms in return for the establishment of permanent normal trade relations (PNTR). But, under U.S. law, PNTR, formerly called most favored nation status, is dependent upon congressional approval of the agreement. (The House of Representatives passed the necessary legislation in May 2000; a Senate vote has been scheduled for September 2000). Several other WTO members are also negotiating agreements relating to terms of entry with China, and these various bilateral agreements will in turn be encompassed within a multinational agreement. China's entry will ultimately be determined by a vote of current WTO members; a two-thirds majority is required for membership. *See* WTO Agreement, Art. XII(2).

The U.S.-China agreement was welcomed by free traders not only for the liberalization of Chinese markets that it mandates, but also for its potential to effect significant political change in China. In what ways might membership of the WTO cause political liberalization? Does this suggest a broader basis upon which to ground support for enhanced intellectual property protection? Will WTO obligations drive the creation of the legal infrastructure and cultural mindset necessary not only to comply with the WTO Agreement but also to accord greater respect for human rights, as the Clinton Administration argues? Which aspects of Chinese society will be most challenged by the involvement of the WTO in China's national affairs? Which aspects will provide the greatest challenge for the WTO?

SPECIAL 301 AFTER TRIPS

As will be discussed in greater detail below, failure to comply with obligations of international intellectual property law may now be pursued (post-TRIPS) by complaining countries before the WTO dispute settlement body. This did not, however, result in the termination of the Special 301 process. Indeed, Section 314(c) of the Uruguay Round Agreements Act, which implemented the GATT Agreement, amended the Trade Act to provide expressly that a failure to provide adequate and effective protection of intellectual property could still trigger Special 301 measures "notwithstanding the fact the foreign country may be in compliance with the specific obligations of the TRIPS Agreement." Trade Act, § 301(d)(3). Thus, the U.S. Trade Representative continues to exercise Special 301 powers, and continues to publish a report on April 30 of each year identifying countries that deny adequate and effective enforcement of intellectual property rights. *See, e.g.,* Notice of Office of the United States Trade Representative, 65 Fed. Reg. 26652 (May 8, 2000). The Special 301 Report builds upon the National Trade Estimate Report on Foreign Trade Barriers, which is published annually by the USTR on March 30 and which produces frenetic activity in Washington.

A short excerpt from the 2000 Special 301 Report follows. A full copy of the report, as well as a summary of all cases initiated under Section 301, and their outcome can be found on the homepage of the USTR at <http://www.ustr.gov/reports/301report/act301.htm> Since the conclusion of TRIPS, the Special 301 process has become one of the means by which the USTR identifies issues that it might ultimately pursue before the WTO dispute Settlement Body. We will return to a discussion of the interaction between Special 301 and the TRIPS dispute settlement process after a more detailed analysis of the latter. *See infra* pages ___-___.

Office of the United States Trade Representative
RESULTS OF SPECIAL 301 ANNUAL REVIEW (April 28, 2000)

United States Trade Representative Charlene Barshefsky today announced the results of the 2000 "Special 301" annual review which examined in detail the adequacy and effectiveness of intellectual property protection in over 70 countries. . . .

2000 SPECIAL 301 DECISIONS

Under the Special 301 provisions of the Trade Act of 1974, as amended, Ambassador Barshefsky today identified 59 trading partners that deny adequate and effective protection of intellectual property or deny fair and equitable market access to United States artists and industries that rely upon intellectual property protection.

In today's action, the United States Trade Representative identified Ukraine for potential Priority Foreign Country designation on August 1, 2000. Ambassador Barshefsky stated that the United States has worked with Ukrainian officials over the past several years in an effort to reduce alarming levels of copyright piracy and to improve Ukraine's overall intellectual property regime. Regrettably, according to estimates from our copyright industry, Ukraine is the single largest source of pirate CDs in the Central and East European region. The U.S. Government currently is engaged with the Government of Ukraine in an intense effort to resolve this problem. At this juncture, the United States considers its interests to be best served by continuing these efforts over the next few months. However, Ukraine will be identified as a Priority Foreign Country if it fails to make substantial progress toward eliminating pirate optical media production prior to August 1, 2000.

Copyright piracy in Ukraine is extensive and enforcement is severely lacking, resulting in increasing unauthorized production and export of CDs and CD-ROMs. . . . In addition, a number of Ukraine's intellectual property laws . . . fall short of compliance with the minimum standards set out in the TRIPS Agreement and the 1992 U.S.-Ukraine bilateral trade agreement. . .

Ambassador Barshefsky again designated Paraguay and China for "Section 306 monitoring" to ensure both countries comply with the commitments made to the United States under bilateral intellectual property agreements. Special concern was expressed that Paraguay's efforts have not been sufficient in recent months, and further consultations will be scheduled.

Ambassador Barshefsky also announced placement of 16 trading partners on the "Priority Watch List": Argentina, the Dominican Republic, Egypt, the European Union, Greece, Guatemala, India, Israel, Italy, Korea, Malaysia, Peru, Poland, Russia, Turkey, and Ukraine. She also placed 39 trading partners on the "Watch List." . . .

Finally, Ambassador Barshefsky noted that while she was not listing El Salvador or the West Bank and Gaza, USTR will conduct out-of-cycle reviews of each in September and December 2000, respectively. The review of El Salvador will assess the government's efforts to improve enforcement procedures and to promote the use of authorized software in all government ministries. The review of the West Bank and Gaza will assess its progress toward implementation of promised enforcement actions against pirate CD manufacturers.

INTELLECTUAL PROPERTY AND HEALTH POLICY

On December 1, 1999, President Clinton announced that the United States is committed to helping developing countries gain access to essential medicines, including those for HIV/AIDS. . . .

. . . When a foreign government expresses concern that U.S. trade law related to intellectual property protection significantly impedes its ability to address a health crisis in that country, USTR will seek and give full weight to the advice of the Department of Health and Human Services (HHS) regarding the health considerations involved. This process will permit the application of U.S. trade-related intellectual property law to remain sufficiently flexible to react to public health crises brought to the attention of USTR. It will also ensure that the minimum standards of the TRIPS Agreement are respected. [For the first time, HHS participated actively as a member of the Special 301 Trade Policy Staff Sub-Committee that is charged with developing the Special 301 recommendations.]

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IMPLEMENTATION OF THE WTO TRIPS AGREEMENT

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While developed countries are already required to fully implement TRIPS, developing countries were given a five year transition period--until January 1, 2000--to implement most of the Agreement's provisions. Ensuring that developing countries are in full compliance with the Agreement now that this transition period has come to an end is one of this Administration's highest priorities with respect to intellectual property rights. With respect to least developed developing countries, and with respect to the protection of pharmaceuticals and agriculture chemicals in certain developing countries, an even longer transition was provided.

Substantial progress has been made over the past year by developing countries toward full implementation of their TRIPS obligations. The United States has worked diligently to assist countries in meeting this goal through consultations and bilateral technical assistance.

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Progress continues by many countries toward more effective enforcement against piracy and counterfeiting, though there are notable exceptions highlighted in this report. This is an ongoing effort which USTR is addressing in a number of ways, including pressing for government software legalization decrees and controls on optical media production.

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GOVERNMENT USE OF SOFTWARE

In October 1998, Vice President Gore announced a new Executive Order directing U.S. Government agencies to maintain appropriate, effective procedures to ensure legitimate use of software. . . .

[L]ast year, China, Colombia, Jordan, Paraguay, and the Philippines issued decrees mandating the use of only authorized software by government ministries. This year Colombia, Macau, Lebanon, and Taiwan have each issued similar decrees. Ambassador Barshefsky noted her pleasure that these governments have recognized the importance of setting an example in this area. . . .

WTO DISPUTE SETTLEMENT

As in previous years, Ambassador Barshefsky is using the annual Special 301 announcement as a vehicle to announce the launch of WTO dispute settlement proceedings against countries that have not met their TRIPS obligations. A priority of this year's Special 301 review is the proper and timely implementation of the WTO TRIPS Agreement, particularly developing country implementation which was required as of January 1, 2000 for most obligations.

In December 1999, USTR initiated an out-of-cycle review of developing countries' progress toward implementing their TRIPS obligations. This review was conducted in tandem with this year's Special 301 review. In conducting the review, it was determined that the vast majority of developing countries have made a serious effort to comply with their TRIPS obligations, though further progress in the area of enforcement is particularly needed. The United States will continue to work with developing countries that are in the process of finalizing their implementation of the Agreement and expects further progress in the very near future to complete this process. However, in those instances where additional progress is not likely in the near term, or where we have been unable to resolve concerns through bilateral consultation, USTR is pursuing U.S. rights through WTO dispute settlement proceedings.

Specifically, Ambassador Barshefsky today announced the initiation of WTO dispute settlement proceedings against Argentina and Brazil, and that we will take the next step in our dispute with Denmark and request the establishment of a WTO panel unless progress is made imminently.

Argentina

Argentina has failed to grant exclusive marketing rights for pharmaceuticals, despite being obliged to do so under the TRIPS Agreement, since Argentina does not provide patent protection for such products. In addition, Argentina fails to protect confidential test data submitted to government regulatory authorities for pharmaceuticals and agricultural chemicals. Other deficiencies in Argentina's patent law include the denial of certain exclusive rights for patents, such as the protection of products produced by patented processes and the right of imp ortation; the failure to provide prompt and effective provisional measures to address patent infringement; and the exclusion of micro-organisms from patentability. Many of these deficiencies relate to concerns regarding Argentina's compliance with the TRIPS Agreement obligations that applied to Argentina as of January 1, 2000. As such, these claims are being added to the already on-going dispute settlement case against Argentina announced in last year's Special 301 report.

Brazil

Brazil's patent law imposes a "local working" requirement as a condition for enjoyment of exclusive patent rights. This requirement can only be satisfied by local production, and not importation, of the patented product. This appears inconsistent with Brazil's obligations under A rticle 27 of the WTO TRIPS Agreement . . .Brazil has stated repeatedly that it disagrees with this interpretation of the TRIPS Agreement. In order to resolve this longstanding difference in views over this issue, as well as to address the concern that other countries may cite the Brazilian "local working" requirement as a justification for proposing similar legislation, the United States is now requesting WTO consultations with Brazil to pursue this single-issue case.

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Potential Dispute Settlement Cases

In addition to the above, there are a number of other WTO Members that likewise appear not to be in compliance with their TRIPS obligations, and which we are still considering as possible future dispute settlement cases. . . . We will continue to consult in the coming months with all these countries in an effort to encourage them to resolve outstanding TRIPS compliance concerns as soon as possible. We will also gather data on these countries' enforcement of their TRIPS obligations and assess the best cases for further action if consultations prove unsuccessful.

COUNTRY BY COUNTRY DESCRIPTION

SECTION 306 MONITORING

China: China is currently engaged in completing the first major revision to its overall IPR regime since our bilateral IPR agreements were concluded in 1992 and 1995. China has agreed in the context of the negotiations on accession to the World Trade Organization to implement the TRIPS Agreement without recourse to any transition period. In the meantime, ensuring effective implementation of our bilateral agreements remains an important effort. While the production of pirated copyrighted works has dropped dramatically since 1996, imports of pirated products remain a concern. U.S. companies report that retail piracy and counterfeit goods rema in widespread in China, in part because of the inadequacy of deterrent sanctions, including lack of criminal penalties. The structure of IPR administration and enforcement in China still remains too opaque. Enforcement at the provincial level is sporadic, but steps in Guangdong province to increase sanctions against piracy and counterfeiting were a positive development. In addition, four Chinese enforcement authorities have joined together to act against optical media, including DVD, pirates. Most recently, in March 2000, the State Press and Publication Administration, the National Copyright Administration of China, the Ministry of Public Security, and the State Administration of Industry and Commerce issued an urgent joint circular to urge every provincial, regional and municipal government authority to launch a special campaign against DVD piracy in China. End-user piracy of business software (particularly in companies), trademark infringement, and problems in obtaining administrative protection for pharmaceuticals are persistent problems.. . .

Paraguay: On January 16, 1998, Paraguay was identified as a Priority Foreign Country (PFC) . . . In November 1998, the U.S. Government and the Government of Paraguay signed a Memorandum of Understanding (MOU) on the Protection of Intellectual Property. While Paraguay initially made progress toward fulfilment of its obligations under the MOU, more recently progress has stalled. Last year, the Government of Paraguay, in coordination with industry, seized and destroyed two multi-million dollar pirate CD factories and made several important reforms to its legal regime for the protection of intellectual property. However, Paraguay continues to be a regional center for piracy, especially of optical media, as well as for counterfeiting, and continues to serve as a transshipment point for an alarming volume of infringing products from Asia to the larger markets bordering Paraguay, particularly Brazil. In addition, Paraguay has failed to implement its obligation under the WTO TRIPS Agreement and the bilateral MOU to enact a modern patent law, among other reforms. . . . Failure to aggressively prosecute known pirates, such as one high-profile case in which a pirate was twice released on bail despite substantial evidence, is a worrisome sign that further progress toward correcting Paraguay's role as a haven for piracy and counterfeiting is threatened. Therefore, the United States has requested consultations under the MOU which will be held in the coming months. If further results are not forthcoming, the United States may consider other options for resolving concerns regarding protection for intellectual property in Paraguay.

PRIORITY WATCH LIST

Argentina: . . . In contrast to the lack of protection in other areas, Argentina's copyright regime has continued to improve over the past two years with Argentina's enactment of legislation in 1999 to ratify the WIPO Copyright Treaty and Performance and Phonograms Treaty. Regrettably, enforcement against copyright piracy and trademark counterfeiting remains significantly below TRIPS standards.

Dominican Republic: The Dominican Republic has failed to correct deficiencies in its legal framework to meet its obligations under the TRIPS Agreement. Draft copyright legislation would be a major improvement over current law. However, draft patent legislation does not appear to meet TRIPS Agreement standards. The U.S. looks to the Government of the Dominican Republic to pass TRIPS-consistent legislation in both areas in conformance with its international commitments. We will continue to consult informally with the Government of the Dominican Republic in an effort to encourage it to resolve outstanding TRIPS compliance concerns as soon as possible in the coming months. Lax enforcement also remains a problem. . . . In response to a petition from the copyright industry, USTR is reviewing the eligibility status of the Dominican Republic under the Generalized System of Preferences (GSP) program.

Egypt: Egypt's intellectual property laws do not comply fully with the TRIPS Agreement. The copyright law remains deficient in the area of protection for pre-existing sound recordings. Egypt's patent law does not provide protection for pharmaceutical and agricultural chemical products and contains other provisions that do not comply with TRIPS Agreement obligations. The government has drafted a new patent law, but had announced previously that it intends to avail itself of the full transition period for product patent protection, i.e., until January 1, 2005. Although the Government of Egypt recently adopted a decree nominally designed to comply with the TRIPS Agreement obligation to provide exclusive marketing rights for pharmaceutical and agricultural products, the adequacy of the decree remains untested. Egypt is considering a revision of its trademark law to meet TRIPS Agreement standards, but the existing trademark law is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases. Although raids have increased, enforcement on the whole remains lax and therefore copyright piracy and trademark infringement remain unchecked. We will continue to consult informally with the Government of Egypt in an effort to encourage it to resolve outstanding TRIPS compliance concerns as soon as possible in the coming months.

The European Union: In 1999, the United States initiated WTO dispute settlement proceedings against the European Union regarding its regulation concerning geographical indications for foodstuffs and agricultural products. Concerns have been expressed that this regulation denies national treatment and does not adequately protect pre-existing trademarks. The EU continues to deny national treatment to U.S. intellectual property right holders in other areas as well. For example, the reciprocity requirement in the data base directive continues to be of concern. Restrictions in certain member states also deny market access opportunities for U.S. right holders. The Administration has made several efforts to address other intellectual property issues of concern to the United States in the context of the U.S.-EU Trans Atlantic Economic Partnership -- those efforts have produced little result to date, though the United States remains hopeful of progress in these areas.

Greece: In 1998, USTR announced the initiation of WTO dispute settlement consultations with Greece and the European Union regarding the high rates of television piracy in Greece. During the course of these consultations, the Government of Greece has taken steps toward addressing this problem, including the passage of additional legislation and the closure of a number of television stations which continued to broadcast programing without authorization. However, Greece has yet to provide assurances that it would implement its new enforcement procedure in a strong and consistent manner, and to take steps to improve the handling of intellectual property cases in the court system for the purposes of resolving this dispute. . .

Guatemala: Guatemala's Criminal Procedures Code requires that all criminal enforcement be brought as "private actions", making criminal penalties difficult to obtain in cases of copyright infringement. Piracy, including by government agencies, is widespread, and the Government of Guatemala has failed to take effective enforcement action. . . .

India: India continues to lack adequate and effective patent protection, failing to comply with the obligations of the TRIPS Agreement in a number of areas, especially with regard to local working requirements, patentable subject matter and exclusive patent rights, term of protection, and protection for test data. Although not required to do so under the TRIPS Agreement until 2005, India has yet to provide patent protection for pharmaceutical and agricultural chemical products. Patent legislation has been drafted but not yet passed. While India's copyright law is generally compliant with the TRIPS Agreement, amendments passed in 1999 undermine TRIPS requirements concerning protection for computer programs. In addition, enforcement against piracy, especially cable piracy, remains a growing concern for U.S. copyright industries, as well as enforcement against imports of pirated products coming from Southeast Asia, for the most part Malaysia. . . .

Israel: The Knesset enacted TRIPS omnibus legislation in December 1999 covering a number of areas, including patents, trademarks and copyright. In the last six months, the Government of Israel has allocated additional resources, including hiring new policemen for intellectual property enforcement and funding new prosecutors, to combat widespread copyright infringement. However, we remain very concerned about the unacceptably high rate of piracy of all forms of optical media in Israel. Israel remains a key distribution hub in a multi-country network (including Eastern Europe and Russia) for pirated optical media product, much of which is still manufactured in Israel. We urge the Government of Israel to expedite its ongoing review of CD plant controls, including mandatory use of source identification codes, and to implement quickly effective controls. Other concerns with Israel's intellectual property regime include possible TRIPS deficiencies such as failure to protect adequately confidential test data and to provide criminal penalties for unauthorized end-user copying of computer software . . .

Italy: Despite five years of effort, the Government of Italy has failed to enact anti-piracy legislation that includes TRIPS-consistent penalties sufficient to provide an effective deterrent to piracy and counterfeiting. . . .Italy's failure to pass this important legislation is of particular concern because it has some of the lowest criminal penalties in Europe and one of the highest rates of piracy. Piracy and counterfeiting of American intellectual property in Italy continue to be relatively widespread practices, particularly with regard to piracy of

video, sound recordings, computer software, books, and video games. As a result of Italy's continued failure to enact this anti-piracy legislation, USTR will conduct an out-of-cycle review of Italy in September of this year. . . .

Korea: Korea is being elevated to the Priority Watch List this year because of a number of longstanding issues, concerns about enforcement, and new issues relating to recent amendments to Korean copyright laws. Despite numerous U.S. attempts, including at the highest levels, and in a variety of fora, several longstanding issues remain unresolved. . . . The United States . . . has ongoing concerns about the consistency, transparency, and effectiveness of Korean enforcement efforts, particularly with regard to piracy of U.S. computer software and books. . . .

Malaysia: Over the past year, Malaysia has focused its efforts on legislation intended to strengthen IPR enforcement against piracy. These priority measures include . . . . enactment of a law necessary to implement a comprehensive regime regulating the production of optical disks. . . . Malaysia also continues to work closely with U.S. companies to deter unlicenced use of software by end-users. However, there is a substantial backlog of IPR cases in the Malaysia courts, and when penalties are imposed they are often insufficient to deter future or repeat offenses. While the number of raids initiated by government authorities increased during 1999, more needs to be done to address general nationwide enforcement. . . .

Peru: The Government of Peru has put in place an ambitious plan to strengthen IPR enforcement during 2000. We are encouraged by the initial steps already taken by the government to implement the plan by bolstering its inter-agency coordination and by collaborating more actively with key private sector interests. . . .U.S. industry continues to express concern about decisions by the INDECOPI Tribunal that are not adequate to deter piracy. We look forward to seeing more complete results from these efforts by late 2000. With respect to patents, the provisions of the revised Andean Community Decision 344 have not yet been brought into conformity with the TRIPS Agreement. We will continue to consult informally with Andean Community governments in an effort to encourage them to resolve the outstanding TRIPS compliance concerns as soon as possible in the coming months.

Poland: Poland has not yet brought its copyright regime into line with its obligations under the TRIPS Agreement. . . . The parliament has made significant progress in preparing amendments to the Copyright Law that would provide for the TRIPS-mandated 50-year retroactive protection of sound recordings and would clarify the point of attachment for sound recordings. We urge the Government of Poland to pass these amendments quickly. The amendments would significantly strengthen Poland's regime for the protection of intellectual property, and passage would trigger a review of Poland's Special 301 status. With respect to enforcement, prosecutors and judicial authorities have not vigorously protected intellectual property rights. . .

Russia: A number of the intellectual property laws, especially the patent, copyright and data protection laws, and the enforcement regime of the Russian Federation do not comply with the TRIPS Agreement or the intellectual property provisions of the U.S.-Russian Federation bilateral trade agreement signed in 1991. Despite a significant number of police raids, and commendable official efforts to improve the enforcement climate, criminal enforcement of intellectual property rights remains minimal in Russia. . . . Russia's ineffective criminal enforcement system and the lack of any border control not only have allowed the domestic market to become saturated by Ukrainian and Asian-origin pirate products, but have also resulted in the development of Russia into a major transit country for counterfeit products destined for European markets.

Turkey: To date, Turkey has not yet addressed all of the benchmarks set out in the 1997 review. Remaining work needs to be done to enhance Turkey's copyright regime to include copyright protection for pre-existing works and sound recordings and ex parte and injunctive relief, and to include deterrent penalties and jail terms. Passage of amendments to the copyright law to address these concerns is anticipated in the near future, and we urge expeditious legislative action. . . .

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WATCH LIST

Armenia: Armenia has several remaining steps to take to fulfill its intellectual property commitments under the 1992 U.S.-Armenia Trade Agreement and to make its intellectual property regime consistent with the TRIPS Agreement. . . In addition, we are concerned about weak enforcement of intellectual property rights in Armenia. Although new criminal penalties for intellectual property violations have been adopted, there have been no convictions under the new law and police authority to commence criminal copyright cases is unclear. Further, Armenia's Customs Code does not provide the proper authority to seize material at the border as required by the TRIPS Agreement. If not addressed, ineffective border enforcement could cause Armenia to become a target for illegal optical media producers, a problem that other countries of the region have faced.

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Bolivia: Bolivia has made some progress this past year with the long-awaited appointment of a director to the National Intellectual Property Service (SENAPI), created by President Banzer in 1997. SENAPI officials appear to be making a good faith effort to train personnel and acquire the resources needed to strengthen the institution. However, SENAPI continues to be seriously underfunded, lacks trained technical personnel, and has no mechanism to enforce intellectual property protections. Overall, enforcement of intellectual property protection in Bolivia remains weak. Software piracy continues to flourish unabated and counterfeit products are produced in Bolivia and imported into the country with impunity, despite efforts by a new national customs service to control contraband at Bolivia's borders and ports of entry...
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Brazil: Brazil made substantial progress on an April 1998 commitment to process pipeline applications in an expedited manner, and it has significantly increased the rate at which it processes regular patent applications. . . .Progress has not been sufficient on Brazil's commitment to increase effective enforcement actions, from raids through judicial decisions, against intellectual property infringement; the rate of CD piracy in Brazil continues to worsen. . . .

Canada: A WTO dispute settlement panel recently confirmed that Canada's patent law fails to grant a full twenty-year patent term to certain patents as required by the TRIPS Agreement. In 1999, Ambassador Barshefsky announced initiation of WTO dispute settlement proceedings to address this situation. The United States looks to the Government of Canada to comply swiftly with the panel's ruling and bring its patent regime into compliance with Canada's international obligations before further losses are suffered by patent owners in Canada. In 1997, the Government of Canada adopted amendments to its copyright law that discriminate against the interests of some U.S. copyright holders. Canada has established a right of remuneration for the public performance of sound recordings and performances. It also has established a levy on blank audio recording media, the revenues from which are intended to compensate performers and producers for the performance and unauthorized home-taping of their works in Canada. The United States remains extremely concerned that U.S. performers and record producers are denied national treatment with respect to both these provisions and also that the remuneration right for public performances does not give producers and performers exclusive rights over on-demand and interactive uses. We will closely monitor their implementation and any future reform of Canada's copyright laws. More recently, U.S. industry has expressed concern over specific deficiencies in Canada's enforcement against piracy and counterfeiting, particularly at the border. . . .

Chile: While generally strong, Chile's intellectual property laws are not yet consistent with its obligations under the WTO TRIPS Agreement which came into force on January 1, 2000. . . Inadequate enforcement against piracy and counterfeiting remains a serious concern, as does the large backlog of pending patent applications. We look to the Government of Chile to eliminate the backlog of patent applications and to bring its legal regime into compliance with TRIPS without further delay.

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Costa Rica: Costa Rica has made significant efforts to improve its legal framework for the protection of intellectual property. The Government of Costa Rica passed seven laws at the end of 1999 in an effort to bring its regime into compliance with its obligations under the TRIPS Agreement, including a provision to extend patent protection terms to TRIPS levels. However, a number of problems remain on the enforcement side, particularly with respect to criminal prosecutions, as evidenced by continued high levels of piracy. The U.S. looks to the Government of Costa Rica to build on its recent progress by taking adequate and effective enforcement actions.

Czech Republic: The Czech Republic has enacted patent, trademark, customs, and criminal and civil code amendments to bring its intellectual property rights regime in line with TRIPS Agreement obligations. . . . However, the Czech Republic still does not explicitly provide for ex parte search and seizure authority in civil proceedings, and alternative measures in the Civil Procedure Code do not appear to be adequate. In addition, despite relatively good cooperation with police and customs officials, enforcement problems with prosecutors and courts remain pervasive throughout all sectors of the copyright industry. As a result, piracy of audiovisual, software, sound recording, book and optical media products continues to be a serious problem in the Czech Republic. We will continue to consult informally with the Czech Republic in the coming months in an effort to encourage it to resolve outstanding TRIPS compliance concerns, including enforcement, as soon as possible.

Denmark: The United States initiated WTO dispute settlement proceedings against Denmark in 1997 as a result of Denmark's failure to implement its obligations under the TRIPS Agreement requiring provisional remedies, including ex parte procedures in civil enforcement proceedings. Courts must be granted the ability to order unannounced raids in appropriate cases to determine whether infringement is taking place and to preserve evidence of infringements, as well as the ability to order that allegedly infringing activities be stopped pending the outcome of a civil infringement case. This type of enforcement remedy is particularly important to the enforcement efforts of the software industry. After numerous consultations with the United States, the Government of Denmark established a Special Legislative Committee to consider the issue and determine the need for amendments to Danish law. The Committee is currently in the process of drafting the necessary legislation, but this process is significantly behind schedule. Therefore, USTR will take the next step in our dispute with Denmark and request the establishment of a WTO panel unless progress is made imminently.

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Hungary: Hungary has enacted copyright, patent, trademark, and criminal and civil code amendments to brings its intellectual property rights regime in line with its obligations under the TRIPS Agreement and its obligations to the United States and the European Union. However, questions remain whether sufficient legal authority exists as required by the TRIPS Agreement for civil ex parte search procedures. . . With respect to enforcement, despite good cooperation with the police, video and cable television piracy is widespread, and local television and cable companies regularly transmit programs without authorization. Prosecutors and judicial authorities have generally not dealt with piracy cases in an expeditious manner or imposed deterrent level fines and jail sentences . . .

Indonesia: . . .Draft legislation in the areas of trade secrets, industrial design and integrated circuits, as well as amendments to existing patent, trademark and copyright laws, was prepared to meet the January 1, 2000 deadline for compliance with the TRIPS Agreement. While the Indonesian Parliament did not act on these proposals prior to that deadline, the legislation was resubmitted to Parliament in February 2000. Police raids were stepped up, but optical media piracy remains rampant and effective enforcement continues to be hindered by corruption and a non-transparent legal and judicial system. . . .

Ireland: It has been over five years since the WTO TRIPS Agreement came into force and the Government of Ireland has yet to implement a fully TRIPS-consistent copyright law. Three years ago, the United States initiated dispute settlement proceedings to address our concern over this situation. After numerous consultations with the United States, Ireland committed to enact comprehensive copyright reform legislation by December 1, 1998, and agreed to pass a separate bill, on an expedited basis, to address two particularly pressing enforcement issues. Consistent with this agreement, Ireland enacted legislation in June 1998 raising criminal penalties for copyright infringement and addressing other enforcement issues. However, Ireland's commitment to enact comprehensive copyright legislation has not been met. We understand recent progress has been made toward finalizing this legislation and expect it will be enacted by parliament before its summer recess. The U.S. Government remains hopeful that Ireland will take the steps necessary to complete the legislative process in the very near future, but will feel compelled to consider other options in the face of any further delay.

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Latvia: Although Latvia has made progress in improving its intellectual property rights regime since it became a member of the WTO in February 1999, there is still much room for improvement. Latvian law does not allow for civil ex parte searches. . . . Although pirate optical media production currently is not a problem, there exists a pervasive transshipment problem in Latvia, not only in optical media but in other copyrighted products as well, with much of Latvia's pirated business software flowing over the border from Russia.

Lebanon: The new copyright law provides a firm basis for copyright protection for U.S. works and sound recordings. However, the law contains exemptions that are not consistent with international standards, and there has been little enforcement against piracy. End-user piracy of computer software is pervasive among large companies, banks, trading companies, and most government ministries. In addition, optical media production facilities are reportedly being set up, with the potential for Lebanon to become an exporter of pirated product. . . . Concerns also remain that health authorities are registering unauthorized copies of patented pharmaceuticals. We look to Lebanon to take swift action to addresses these concerns.

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Macau: Over the past six months, Macau has made reasonable progress in attacking the piracy problems that led to its placement on the Special 301 Priority Watch List. . . . Over the next several months, we look to Macau to organize a new customs department, incorporating elements of both the Macau Economic Services Department and the Marine Police. . . . Macau's courts have implemented a special expedited prosecution system that allows a suspect to be brought immediately to trial. We now look to Macau to vigorously prosecute those responsible for piracy. . . .

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Oman: As part of its efforts to accede to the WTO, Oman is currently working with WTO Members to amend its current copyright law to comply with the provisions of the TRIPS Agreement. Although Oman has started to take steps to combat software piracy, no action has been taken to date against end-users of unauthorized computer software. . . .

Pakistan: Pakistan's regime for protection of intellectual property does not yet comply with the obligations of the TRIPS Agreement. The Government of Pakistan has undertaken the task of rewriting legislation in the areas of copyrights, patents, and trademarks, but this work appears to have been hampered by lack of a central coordinating authority. . . .

The Philippines: The Philippines has been inconsistent in its nationwide enforcement efforts which rarely result in the imposition of deterrent penalties. . . .It is . . .unclear whether existing law provides right holders an ex parte search and seizure remedy as required by TRIPS Article 50, which is a major priority for the United States. . . .We are also concerned about ineffective enforcement against cable television piracy, and about the persistence of unacceptably high levels of piracy of U.S. textbooks and other publications. In reaction to increased reports about the proliferation of infringing optical disc production in the Philippines, the United States strongly urges the Philippine Government to adopt an effective regulatory system to combat this problem. . . .

Qatar: Despite isolated enforcement actions, Qatar has not yet pursued sustained and deterrent enforcement against end-users of unauthorized computer software, including government entities and against retail shops selling pirated software. . . .

Romania: Although Romania has joined the Berne Convention and the Geneva Phonograms Convention, and is a signatory of the WIPO treaties, it has yet to ratify the treaties or pass legislation necessary to implement them. Criminal enforcement against copyright piracy and trademark counterfeiting (especially of U.S. distilled spirits) continues to be lax, resulting in troubling levels of infringements against imported products and growing domestic production of pirated goods. . . .

Saudi Arabia: As part of its effort to accede to the WTO, Saudi Arabia is currently working with WTO Members to revise its intellectual property laws, including patent and copyright laws, to bring them into conformity with the TRIPS Agreement. . . While the government has been working with the U.S. copyright-based industries to conduct some raids, overall enforcement is not carried out with sufficient regularity and is not accompanied by the appropriate level of publicity and sentences to reduce the level of piracy. . . .

Singapore: Overall piracy rates in Singapore decreased slightly during 1999, while the number of police-organized raids increased. . . The United States urges Singapore to continue its anti-piracy consumer education campaign and to reassess the existing "self-help" approach to intellectual property enforcement which shifts to right owners the primary burden and expense of investigating and prosecuting infringement. . . . Further, we remain concerned about insufficient efforts at the border to stop the in-flow and transshipment of infringing articles through Singapore.

Spain: . . . Government enforcement activities have increased substantially in recent years with exemplary cooperation from Spanish police. However, recent court decisions have called into question the adequacy of protection for well-known trademarks. . . .The slow pace of both civil and criminal court proceedings and lack of sufficient criminal penalties is thought to have diluted the impact of the increased raids in certain areas.
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Taiwan: Taiwan has had mixed results on intellectual property during the last year. On the positive side, top level support within the Ministry of Economic Affairs has finally resulted in the establishment of an effective Intellectual Property Office. This office has been well staffed with energetic people. . . . On the negative side, responsibility for intellectual property matters is still badly fragmented among different agencies. Repeated U.S. Government requests for action to improve access to the judicial system in infringements case, to enforce existing source identification code regulations, and to adopt an effective chip marking system have been rebuffed. Taiwan is now among the world's largest producers of optical media. Toleration of extremely lax procedures in enforcing intellectual property rights in this area is out of step with Taiwan's increasing role as an originator of intellectual property.
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Thailand: Thailand's . . .intellectual property courts are imposing criminal penalties; however, these are often not sufficient to deter infringement and are often suspended pending appeal. Thai prosecutors remain unwilling to charge infringers for violations of customs and revenue laws, in addition to intellectual property infringement. Moreover, the periodic disappearance from police custody of critical evidence of copyright and trademark infringement continues to hamper prosecution. . . .The government . . needs to do more to address increasing levels of optical media piracy in Thailand. In this regard, the United States will monitor closely ongoing efforts to enact legislation necessary to implement a comprehensive regulatory regime to control optical media production. We also urge Thailand to address the inability of enforcement authorities to conduct raids outside business hours; this deficiency has become a significant liability to the effectiveness of the government's efforts to strengthen intellectual property enforcement
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Uruguay: Reform of outdated patent and copyright legislation has been underway in Uruguay for a number of years. The Uruguayan Congress enacted the patent bill in September 1999, but the new law contains several problematic areas, including omission of protection for confidential test data, overly broad compulsory licensing provisions, failure to address exclusive marketing rights, and international exhaustion of patent rights. We urge the Government of Uruguay to enact TRIPS-consistent copyright legislation and to amend the new patent law to bring it into full compliance with TRIPS Agreement obligations. . .
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Vietnam: The Government is still in the formative stages of drafting, enacting and enforcing intellectual property laws. . . On December 27, 1998, the bilateral copyright agreement between the United States and Vietnam entered into force, following the issuance of implementing regulations by Vietnam. The agreement grants U.S. works copyright protection in Vietnam for the first time. We look to the Government of Vietnam to enforce its new copyright regime vigorously to reduce piracy levels measurably, and to take steps to ensure that all government offices use only legitimate software. We also expect the Government of Vietnam to address intellectual property rights issues in the contexts of negotiations on a bilateral trade agreement and its accession to the WTO.

QUESTIONS

This edited version of the April 28, 2000 announcement by the USTR provides a representative sample of the comments included by the Trade Representative with respect to different countries. From the report's summary of areas of concern, can you detect the current priorities of the USTR (in addition to those explicitly acknowledged)? Do you agree with these priorities? To some extent, these annual reports reflect concerns expressed by intellectual property trade associations. *See, e.g.,* Letter from Eric Smith, President, International Intellectual Property Alliance, to Joseph Papovich, Assistant USTR for Intellectual Property, in Response to Request For Submissions Regarding Identification of Countries Under Section 182 of the Trade Act (Special 301), February 16, 1999 (reporting views of coalition of seven trade associations representing segments of U.S. copyright industries and suggesting specific Special 301 categorization of 58 countries), *reprinted in* 46 J. COPR. SOC'Y 99 (1999). Is any apparent area of concern an inappropriate subject of comment by the United States? To what standards does the USTR appear to be holding other countries? Are these standards appropriate? Identify the different means by which and the different fora in which the USTR is seeking to achieve its objectives? Do the responses

being sought by the United States from other countries appear consistent with the nature of international intellectual property relations?

2. European Union Trade Barrier Regulation

As suggested in the Newby article, the EU has responded somewhat in kind to the review aspects of the Special 301 device by enacting a Trade Barrier Regulation. *See* Council Regulation (EC) No. 3286/94 laying down Community procedures in the field of the common commercial policy in order to ensure the exercise of the Community's right under international trade rules, in particular those established under the auspices of the World Trade Organization, O.J. 1994 L 349/71 of 31 December 1994, as amended by Council Regulation (EC) No. 356/95, OJ. 1995 L 41/3 of 23 February 1995. Under this Regulation, individual companies may file a complaint with the European Commission if their trade opportunities in third-country markets are restricted by foreign trade barriers (such as inadequate intellectual property protection). The Trade Barrier Regulation replaces the similar, but weaker and thus little used, mechanism established in 1984 by the New Commercial Policy Instrument (the NCPI). *See* David Rose, *The EU Trade Barrier Regulation: An Effective Instrument for Promoting Global Harmonisation of Intellectual Property Rights*, 21 EUR. INTELL. PROP. REV. 313 (1999). The NCPI had not specifically addressed inadequacies in intellectual property (although it was used in matters of intellectual property), and had given the Commission very limited powers to deal with third countries. The Trade Barrier Regulation remedies those weaknesses. Complaints alleging third country obstacles to trade may be filed with the Commission either by a Community industry or a Community enterprise. After consultation with Member States (by the vehicle of an Advisory Committee), the Commission decides whether there is evidence of a basis upon which to conduct an examination of the third country practices. The examination procedure includes an information gathering process that is not unlike that used by the USTR, involving broad solicitation of input from interested parties. The examination procedure takes between 5-7 months, and results in the submission of a report by the Commission to the Advisory Committee of Member States' representatives. The Commission may terminate the proceedings if further action is not in the Community's interest, may suspend proceedings pending resolution of the matter with the country concerned, or may take retaliatory trade measures. Article 12(2) of the Trade Barrier Regulation requires that where international obligations require the Commission to address the dispute through a particular dispute settlement process, that process must be followed prior to the imposition of retaliatory measures. For a thorough explanation of the Trade Barrier Regulation and its use thus far, see David Rose, *The EU Trade Barrier Regulation: An Effective Instrument for Promoting Global Harmonisation of Intellectual Property Rights*, 21 EUR. INTELL. PROP. REV. 313 (1999).

In its first four years, the Commission ruled on eight complaints. Several of the the referrals have led to the initiation of the WTO dispute settlement mechanism by the EU. For example, the EU challenge to the Fairness in Music Licensing Act, *see supra* pages ___-___, flowed from a complaint filed by the Irish collecting society, the Irish Music Rights Organization or IMRO, supported by the Members of the Groupement Europeen des Societes d'Auteurs et Compositeurs (GESAC), a grouping of twenty-four of the largest licensing and collecting societies in Europe. *See* Notice of Initiation of an examination procedure concerning an obstacle to trade, within the meaning of Council Regulation (EC) No. 3286/94, consisting of trade practices maintained by the United States of America in relation to cross-border music licensing, O.J. 1997 C177/5 of 11 June 1997. The use of the Trade Barrier Regulation mechanism is likely to increase as the WTO dispute settlement process develops further.

C. MULTILATERAL TRADE MEASURES

1. **The TRIPS Agreement And WTO Dispute Resolution**

The conclusion of TRIPS in 1994 dramatically altered the nature of international intellectual property law. Most significantly, international obligations imposed upon countries are now backed up by real, effective enforcement mechanisms. But the newness of this enforcement system raises many first-impression issues for international intellectual property law (and, indeed, for the GATT system). In a groundbreaking article published before any complaints alleging violations of TRIPS were filed, Professors Rochelle Dreyfuss and Andreas Lowenfeld of New York University School of Law provided an insightful combined trade/intellectual property perspective on these issues. The Dreyfuss/Lowenfeld analysis is built around five hypothetical cases, which serve superbly to highlight many of these first impression issues. Excerpts from the article follow. After each of the hypothetical cases analyzed by Dreyfuss and Lowenfeld, we have inserted notes and questions. These notes and questions not only probe the analysis offered by Dreyfuss and Lowenfeld, but also reflect observations based upon cases actually filed or decided and scholarly commentary authored since the article's publication. It is perhaps a testament to the value of this article that we use the Dreyfuss/Lowenfeld article discussing hypothetical cases as the basis for our discussion of actual cases. (Thus far, four panel reports and one Appellate Body report have been issued on complaints regarding TRIPS compliance).

First, however, David Palmeter has succinctly described the basic dispute resolution procedure and the background to the 1994 GATT Agreement, which gave rise to the World Trade Organization on January 1, 1995. An excerpt from that description precedes our case discussion.

David Palmeter, NATIONAL SOVEREIGNTY AND THE WORLD TRADE ORGANIZATION
2 Journal of World Intellectual Property 77, 78-81 (1999)

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 time 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, and 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. . .

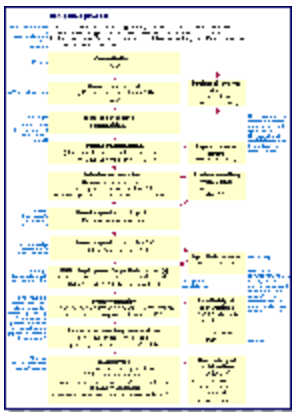
The right to appeal from a panel decision is another extremely important innovation of the Uruguay Round. There was no appeal in the GATT. The Uruguay Round negotiators believed, however, that with the new system of near automatic adoption of reports, appellate review was necessary. The Appellate Body,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

NOTES AND QUESTIONS

1. Which aspects of the system described by David Palmeter reflect the shift toward adjudication rather than diplomatic negotiation? Which aspects retain the "vestiges of the diplomatic"? As you read the excerpt from Dreyfuss and Lowenfeld that follows, consider which approaches or analyses suggested by the authors reflect the different models. In the context of private dispute resolution, we have witnessed over the last few years a trend from adjudication of disputes to mediation of disputes. Why did countries agree to move in the other direction—from negotiated resolutions to adjudicated decisions—in the Uruguay Round in 1994? Why does the WTO dispute settlement process retain *any* aspects of the diplomatic model?

2. The United States and the EU have expressed concerns about the transparency of the WTO dispute settlement process. Parties' submissions to the panel are kept confidential by states, *see* DSU, art. 18(2), and the meetings between the parties and the panel members are closed to the public. The United States and the EU have argued that documents should be available to the public and that hearings should be open to the public. Would this be advisable? What benefits would it provide? Why do you think that some countries, particularly developing countries, have been more leery of opening up the process? *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 459 (1998) (comments of John Kingery); Kim Van der Borght, *The Review of the WTO Understanding on Dispute Settlement: Some Reflections on the Current Debate*, 14 AM.U.INT'L L. REV. 1223, 1228 (1999).

THE WTO DISPUTE SETTLEMENT PROCESS: A FLOWCHART
http://www.wto.org/wto/about/dispute2.html



Rochelle Cooper Dreyfuss and Andreas F. Lowenfeld, TWO ACHIEVEMENTS OF THE URUGUAY ROUND: PUTTING TRIPS AND DISPUTE SETTLEMENT TOGETHER [*]

37 VA. J. INT'L L. 275 (1997)

Introduction

In many ways, completion of the Uruguay Round was a miracle, a package deal with so large an agenda that no state or group of states, and no professional community, could fully grasp the significance of everything that was finally subsumed within the new General Agreement on Tariffs and Trade (GATT). The United States, for instance, was allied with the larger developing countries on agriculture, with the European Community on the other side; but on intellectual property, the United States was, roughly speaking, allied with the European Community, and it was the developing countries that were on the other—or perhaps, better, on another—side. Add in investment issues, services, government procurement, and the traditional trade issues—subsidies, dumping, and safeguards—and the shifting conditions and interests were something like a kaleidoscope.

There were two major breakthroughs in the Uruguay Round. The one that seems to have been the most surprising to the participants was agreement on a strict and binding system of dispute settlement and enforcement. . . .

The second significant achievement concerned intellectual property, previously the province of bilateral and multilateral agreements that generally lacked enforcement provisions. The incorporation of an Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) into the GATT means that member states will, for the first time, have a place to resolve disputes concerning the recognition of copyright, patent, trademark, and related rights. Moreover, because every member must now accept all the agreements negotiated during the Uruguay Round, TRIPS signals the entry of many new states into the intellectual property community.

As salutary as these developments are, they raise important questions. While the enforcement system of the new WTO was probably one of the most attractive features of the GATT to the intellectual property community, the architects of the Understanding on Dispute Settlement[*] **were thinking more about curing the perceived shortcomings of the prior GATT dispute settlement mechanism—about how to handle disputes concerning measures enforced by states on imports or exports of goods—than they were about the TRIPS Agreement. They apparently gave little thought to such issues as the differences between rights in intellectual property and other forms of property, between tangible and intangible goods, between disputes that arise among countries and among firms, and between disputes that arise as a result of judicial, as contrasted with legislative, decision making.**

. . .

Under prior GATT practice, the parties' duties were often clarified through diplomatic negotiations or dispute resolution that avoided legalistic interpretation of the terms of the Agreement. But the GATT/WTO system is now clearly more adjudicatory than in the past, as well as richer than ever before in the subjects on which member states have come together. To cope with the new and expanded law of international trade, the GATT/WTO system has created an elaborate Understanding on Dispute Settlement (DSU). The DSU provides for a Dispute Settlement Board (DSB), made up of representatives of all the member states but with a separate chairman and secretariat, a standing Appellate Body, to be discussed hereafter, and dispute panels to be established ad hoc on the basis of carefully drafted criteria.

The obligations contained in the TRIPS Agreement are somewhat different than those in the GATT. Of the TRIPS Agreement's three core commitments—national treatment, most-favored-nation treatment, and minimum standards—only the first two are obligations derived from pre-Uruguay Round versions of the General Agreement. Indeed, since they are the only provisions that address conditions that make it more difficult for foreigners, relative to domestic producers, to extract profits, they are the only ones that deal with direct obstacles to trade. In contrast to the traditional GATT provisions, the minimum standards propounded by the TRIPS Agreement are based on the Berne and Paris Conventions, treaties that are principally aimed at promoting innovation by curbing practices deemed to constitute free riding. Free riding is always a problem to those who invest in innovation. However, because a country's refusal to protect against copyists leaves all innovators operating within that country on something of an equal footing, the absence of intellectual property protection is not a direct barrier to international trade.[55]

This difference in focus between TRIPS and the remainder of the GATT means that participants in disputes involving intellectual property will be moving in largely uncharted waters. They will probably not receive much guidance from the case law that developed during the resolution of prior GATT disputes. Article 3.1 of the Understanding on Dispute Settlement acknowledges formal adherence to rules and procedures followed under GATT 1947; the issues that arise under the TRIPS Agreement, however, may be too novel to make former practices helpful to dispute resolution.

Moreover, the vocabulary of intellectual property and the vocabulary of the GATT sit in uneasy contrast. For instance, consider the terms "competitive" and "protective." For the intellectual property community, pro-competitive measures are those that promote innovation by maximizing the public's ability to utilize intellectual products already a part of the storehouse of knowledge. Patents, copyrights, trademarks, and trade secrets limit public access. They are, therefore, considered anti-competitive. Within the GATT/WTO system as it has emerged from the Uruguay Round, the thinking is reversed. The TRIPS Agreement, intended mainly to promote global competition, treats patents, copyrights, trademarks, and trade secrets as pro-competitive. Similarly, the GATT disfavors protectionism—a word the intellectual property community has long used to describe precisely the copyright, patent, trademark, and trade secret policies that the TRIPS Agreement mandates.[56] [*Eds. Note:* Exhaustion is addressed in Chapter IX, *infra.*].

These differences may turn out to be mere semantics. But in both the world of diplomacy and the world of reasoned decision making, words have persuasive power. More important, these words represent issues that for the intellectual property community are, in many cases, acutely controversial. Intellectual property regimes were initially to be integrated by the World Intellectual Property Organization (WIPO). For many years, that effort was stalled in part because its members could not agree on issues such as whether (and when) consumer welfare is enhanced by sacrificing competition to protect profits in creative efforts. The Uruguay Round succeeded where WIPO failed for a variety of reasons. One of the reasons, it seems, was that the architects of the TRIPS Agreement used words—and a concept of minimum standards—that allowed each state to read into the Agreement what it wished to see.[57]

One may hope that the persons who administer the Understanding on Dispute Settlement will have both the authority and the expertise to clarify the meaning of the many agreements making up the WTO system. But neither the DSU, nor the TRIPS Agreement, nor the Berne or Paris Conventions, provide guidance on how minimum standards—rather than actual or optimal standards—will work in conjunction with an adjudicatory dispute resolution system that is backed with enforcement procedures. Success will depend on how well the GATT/WTO system addresses the differences between intellectual property and other trade matters. With these perspectives in mind, we examine the jurisprudential issues that the decision makers operating under the DSU will encounter—questions concerning the source of the law to be applied; the scope of Appellate Body review; and the deference that should be paid to the decisions of other rulemaking authorities, including national courts and administrative agencies. Because our focus is on actual dispute resolution, we have framed our discussion of these matters around a series of hypothetical cases, built upon the substantive issues of major concern to the intellectual property community.

I. Threshold and Subject Matter Issues

It is impossible to predict exactly how complaints involving the TRIPS minimum standards will evolve. Formally, disputes

will always be between member states—not between intellectual property producers and consumers. There will be continuing issues on how states will choose which practices to challenge, which cases to use as vehicles for these challenges, and which states to sue. However, because the thrust of the TRIPS initiative was to induce developing countries to move toward effective protection of intellectual property, one may expect that much of the WTO litigation in this area will be between developed countries as complainants and developing countries as respondents.

Moreover, although some of the complaints will surely concern clear breaches—such as failure to sufficiently prevent trademark and copyright piracy, or refusals to protect particular technologies, such as health-related inventions—we expect that many complaints will not be so straightforward. Our expectation stems from the nuanced nature of intellectual property laws. Because these laws are structured so that a country can, at any given point in its intellectual history, achieve what it regards as an appropriate balance between the proprietary interests of producers and the access needs of consumers, they are difficult to draft. Clear cases are unlikely because newcomers to the intellectual property community have little choice but to base their laws on those of developed countries. But literal conformity to the TRIPS Agreement does not tell the entire story: a state intent on preserving access can use the flexibility of the law to strip intellectual property holders of any meaningful protection. These are the cases that we envision, and we expect that they will be difficult to decide.

For example, intellectual property law creates an important distinction between the utilization of ideas and the ideas themselves. Utilizations (expressions for copyright law, applications for patent law) are protectable subject matter, but the ideas themselves cannot be protected. A parallel line is drawn at the enforcement stage, where only certain uses are considered to be infringements. These distinctions are important and generally observed because they assure that the storehouse of knowledge can grow. End-uses are protected, but the building blocks of knowledge are released to all potential innovators. By providing assurance that information essential to progress remains available to all users, these distinctions make it less risky for states not previously party to the international intellectual property conventions to take the step of joining and conforming to the TRIPS Agreement. At the same time, however, the distinctions between ideas and applications may provide a way to avoid complying with the obligations of the TRIPS Agreement. Legislation can appear to be conforming, but lack all bite. Thus, it is almost inevitable that disputes will arise over the question whether a state that has adopted conforming legislation has nonetheless failed to provide meaningful protection to innovators.

One other important, though little understood, aspect of GATT dispute settlement needs to be mentioned here before we consider the first of our cases. The Understanding on Dispute Settlement contemplates several different types of disputes. Under article XXIII(1) of the GATT, retained without change from the 1947 version, the dispute resolution process can be utilized both when a member state asserts that a benefit accruing to it under the Agreement is nullified or impaired by a measure taken by another member state (a violation complaint), or when a member state asserts that any objective of the Agreement is being impeded as the result of any measure applied by another member state, whether or not it conflicts with the Agreement (a nonviolation complaint). Complaints involving failure to carry out obligations—violation complaints—are relatively easy to bring, because such breaches are presumed to cause harm. [DSU, art. 3.8]. Indeed, in the half-century history of the GATT, violation complaints have been by far the most common complaints filed. Complaints alleging that countries have undertaken activities or experienced events that have resulted in frustrating the objectives of the Agreement even when not in breach of it (that is, nonviolation complaints) have been rare, in substantial part because in such cases the burden of proving a causal relation between the challenged measure and the alleged injury rests on the complaining party. Moreover, the complaining party must demonstrate not only that it suffered a trade injury as a result of the challenged measure but that it was justified in relying on the nonoccurrence of that measure or event. . . . Because the burdens of persuasion and proof are different in violation and nonviolation complaints, a threshold issue for a dispute panel may well be how to characterize a particular complaint.

Perhaps because of the difficulty in resolving nonviolation complaints in respect of an agreement in which all the premises are new, or perhaps out of concern that vulnerability to nonviolation complaints would put too much pressure on developing countries faced with the political problem of passing conforming legislation, the TRIPS Agreement provides a five-year moratorium for nonviolation complaints.[58] Nevertheless, we begin our series of cases with this fundamental question, to illustrate the complexity of fitting together the GATT, the DSU, and the TRIPS Agreement.

Case I

> Macrohard is the creator of a computer program that is protected in Xandia, its home country, and elsewhere. It discovers that this program is being sold without authorization in Patria. Macrohard sues the sellers for infringement in Patria, but loses. Patria has not enacted patent protection for programs. Although Patria has enacted copyright protection, the Patrian court holds that Macrohard's program is no more than a principle, system, or method of operation, and so is excluded from protection. Macrohard contends that Patria is engaging in a pattern of nonenforcement; that what it is actually doing is refusing to provide any intellectual property protection for programs, in violation of the TRIPS Agreement. It prevails upon Xandia to bring a complaint to the WTO. After consultation fails to result in a resolution of Xandia's complaint, a panel is formed to consider the allegations.

A. Violation or Nonviolation Complaint

If Patria had failed to enact any protection for computer programs, the assertion by Xandia that Patria had violated article 10 of the TRIPS Agreement would be easily established. Patria has, however, met the literal requirement of article 10, by providing in its legislation that computer programs may be subject to copyright; its court has simply found Macrohard's program to be nonprotectable subject matter. Thus, Patria argues to the dispute panel that it has carried out its obligations; court decisions such as Macrohard are, at most, measures that impede the attainment of an objective of the Agreement. Is this, then, a violation or a nonviolation complaint? . . .

How should the characterization question be resolved? The preliminary question, choice of law, is easily answered: since characterizing the complaint is an issue only because of the terms of the TRIPS Agreement and the GATT, GATT law applies. But what should this law be? If it is necessary to characterize the complaint in order to determine whether the moratorium applies, the issue should be determined by investigating the reasons for the moratorium. Apparently its purpose was to give the Council for TRIPS, which was provided for in the Agreement establishing the World Trade Organization, time to "examine the scope and modalities for nonviolation complaints;" accordingly, then doubts on characterization should be resolved in favor of Patria. Subject matter issues are among the most difficult of all intellectual property issues. Allowing the parties' understanding of TRIPS to mature before these questions are answered makes considerable sense. But if such a first case is decided as we suggest, it will be important to explain the reasoning with care—not always possible in a collegial body—so that it does not become a precedent for later cases, where, as we discuss below, the priorities and values will be different.

The other reason for characterizing this complaint as a violation or nonviolation complaint is to determine whether Xandia must, as a threshold issue, demonstrate reliance and injury. In this context, one might conclude that doubts should be resolved in favor of Xandia, the complaining party. Threshold requirements determine the availability of relief. Given that dispute resolution is a primary way in which the TRIPS Agreement will be enforced, the threshold for bringing an action should not be so high as to imperil the success of the enterprise. If we are right in predicting that many complaints will be based on allegations that the flexible features of intellectual property law are systematically misinterpreted to avoid the commitments embodied in the TRIPS Agreement, it is important that the decision makers are able to reach these interpretive questions. And if the experience of countries with well-developed intellectual property law is any indication, DSU panels will need to reach the issue many times before parties achieve a genuine understanding of all its parameters. Thus,

at least after the moratorium, it seems that such complaints should be characterized as violation-type complaints.

Characterizing this complaint as a violation complaint would have the additional advantage of avoiding serious questions as to what constitutes an adequate demonstration of reliance and injury. In other parts of the WTO system, treating violation and nonviolation complaints differently makes considerable sense. Breach of a GATT obligation is itself a serious matter; thus, it is efficient for panels to presume that a nullification or impairment has occurred when a party has breached. The effect of other actions or situations is not so clear, and so it is reasonable to require the complainant to establish that harm of the sort that GATT is meant to prevent has occurred. But while prior custom and practice should certainly act as precedent for deciding issues such as the burden of proof in TRIPS disputes,[59] attention also needs to be paid to the differences between intellectual property and the other sorts of goods (and services) encompassed by the WTO system. In Case I, for example, it is the firm, rather than the complaining state, that would have the task of showing reliance. A firm such as Macrohard may have made its decision to invest in producing a major new computer program in small increments, over time, long before the dispute in Patria arose, and in response to other technological changes, as well as to various factors in the economy and in its own industry. Thus, it would probably be very difficult for Macrohard (or any other member of the computer industry) to establish that any specific decision was made in express reliance on protection in Patria. Accordingly, if the TRIPS Agreement is to be successful in encouraging investment in innovation, it would be wise not to impose a severe burden of showing reliance in TRIPS cases. Indeed, given that intellectual property law is based on the premise that innovation is spurred by the promise of protection, a strong argument could be made that reliance should be presumed. To fit such a standard into the GATT/WTO system, however, would require receptiveness to treating borderline cases as violation, not nonviolation, complaints.

Much the same can be said about demonstrating injury. As with reliance, this issue should be determined under the law of the GATT. But, as with reliance, the GATT precedents may not fit intellectual property disputes. Traditional GATT disputes have focused on loss of trading opportunities by the claimant exporting country by reason of restraints imposed by the respondent importing country; in contrast, the failure by a respondent state to enact or enforce intellectual property protection will never directly interfere with trade. In our Case I, Patria is not preventing Macrohard from selling its products in Patria. Macrohard can fully participate in the market so long as it is willing to sell its program at the competitive price. And if, as seems likely, Macrohard earned back its investment in countries where computer programs are more fully protected, Xandia might well not even be able to demonstrate that Macrohard's incentives to be innovative were harmed.

To be sure, Xandia might be able to show that Macrohard earned less from sales in Patria, both in volume and in price markup, than it would have earned had Patria been in full compliance with Xandia's vision of the TRIPS Agreement, and less than it earned in other states with similar markets. Should such a showing be required before Xandia would be allowed to prevail in its complaint? Or is such a standard too high to achieve the objectives of the Agreement? In domestic copyright cases in the United States, for example, where a showing of injury is required, it often is presumed. The thinking is that the lack of promised exclusivity distorts the market. Once the market is distorted, it is difficult to reconstruct the effect of copying or to evaluate the extent to which the creator was harmed. The law establishes a presumption of injury in order to make sure that infringement is adequately deterred. By the same reasoning, adequate enforcement of the TRIPS Agreement may require either relaxing the standard for demonstrating injury in nonviolation complaints, or treating cases such as Case I as involving a violation complaint.

B. Compliance with TRIPS Article 10

The above analysis leads inevitably to the next question: Is Patria meeting its international obligations, as set out in the TRIPS Agreement? Since it has enacted a copyright law covering computer programs, Patria's obligation under article 10 of the TRIPS Agreement seems to be met, at least prima facie. Patria's patent law does not cover programs. That omission may be inconsistent with article 27(1), which states that, subject to stated exceptions (not including computer programs), patents shall be available "in all fields of technology." If a panel is asked to resolve this inconsistency, it should construe the TRIPS Agreement in accordance with the guidance given by the DSU.

Article 3.2 of the DSU refers to "customary rules of interpretation of public international law," a vague guidepost that may or may not include the negotiating history of the TRIPS Agreement and scrutiny of the domestic laws of the members as they existed when the TRIPS Agreement entered into force.[60] We would urge that both the negotiating history and the concerns and practices of the proponents of the TRIPS Agreement be taken into account in answering the question, along with the less controversial resort to the "ordinary meaning" of the terms of a treaty in the light of the treaty's object and purpose.[61]

Thus, the question whether article 27 of the TRIPS Agreement requires protection for programs should be addressed, first, by noting that it is a general provision. Article 10, on the other hand, is specifically addressed to computer programs and should take priority as the lex specialis. Second, the negotiating history of the TRIPS Agreement indicates that the developed countries were concerned about the inadequacy of the then-extant international intellectual property treaties on the issue of computer programs.[62] The dispute over the extent to which programs should be protected persisted throughout the early years of the Uruguay Round. The record shows that the discussion was limited to the question of considering computer programs as "literary works" for the purpose of extending copyright protection,[63] and that the outcome was a provision expressly requiring only copyright protection. The inference would seem to be clear that the TRIPS Agreement should not be interpreted to require patent protection as well.

As to the domestic practices of member states, we submit that these are relevant not because they apply of their own force, but because they shed light on two significant issues: the understanding of the parties when the Agreement was signed, and the practicalities of requiring compliance with the interpretation put forth by Xandia. Here, experience supports the conclusion that Patria is not required to enact patent protection for programs. The parties were not thinking along the lines of protecting programs with patents. Although patents on programs have been issued in the United States, the experience during the time of the Uruguay Round was that the sophistication required to examine patents and determine whether they have been infringed outstripped the abilities of both the Patent Office and the courts. Given that the United States has long enjoyed more technological resources than are available to many of the other parties, it seems sound to conclude that article 10 in the copyright chapter of the TRIPS Agreement was intended to be the sole source of protection for computer programs, and that it should be understood as implicitly rejecting a requirement that parties provide patent protection to computer programs.[64]

If, then, the focus is on copyright, and not on patent, the next question is whether Patria's decision in the Macrohard case is inconsistent with the requirement of article 10 that "[c]omputer programs, whether in source or object code, shall be protected as literary works under the Berne Convention." This is likely to be the most difficult issue in the case. Countries that have already provided copyright protection for programs have had a hard time differentiating between unprotectable programming ideas and protectable expression. . . .

C. Lawmaking at the Frontier

One might think that the WTO dispute resolution mechanism, with access to the advice of experts from around the world, would be the ideal way to resolve difficult, high-stakes open questions such as this one. Moreover, the existence of a standing Appellate Body provides a capacity for finding the "best" rules of law for the global economy. If the DSU works as many hope, then these "best" rules might be accepted into the domestic laws of the parties (or at least, into the laws of those parties where the question has not yet been fully answered), leading ultimately to genuine global harmonization.

However, lawmaking in the process of adjudication, a familiar concept to those raised in the common law, is formally

circumscribed by the admonition, stated twice in the Understanding on Dispute Settlement, that rulings of the DSB "cannot add to or diminish the rights and obligations provided in the covered agreements."[65] While this statement will surely acquire considerable gloss if the intent to make dispute resolution more adjudicative becomes a reality, the GATT's history of conciliation and diplomacy is likely to exert some influence on how disputes are resolved. Thus, at least in its early stages, dispute resolution in the WTO may not be characterized by the sort of give-and-take likely to produce the "best" rule of law.

Furthermore, the limited role permitted to third parties, which requires the third party to have an existing trade interest in the controversy in question, may well distort the decision making process viewed at long range.[66] It is well recognized that creating intellectual property requires a considerable level of sophistication. It is somewhat less recognized—but nonetheless true—that in many areas, even copying requires a measure of technical capacity. Thus, it is likely that all the early disputes in areas such as computer copyright infringement will be among states that have some degree of technological expertise; states with less capability will not be respondents or complainants; nor will they be able to show the "substantial trade interest" necessary to support intervention. The members that participate in dispute resolution will not, therefore, be representative of the entire membership of the WTO. Since disputants will surely argue for the rules that work best for them, the early years of the Agreement are not likely to produce "best" rules when judged from the point of view of the WTO membership as a whole or from the perspective of the global economy. And, unlike adjudication within many of the parties' national courts, there is no legislative check or balance on dispute resolution in the WTO.

To be sure, the TRIPS Agreement also creates a Council for TRIPS, which is charged with the duty to "monitor the operation of this Agreement." Though the intent of the drafters does not appear to have been to create the Council as a rule-enunciating body, it is possible that the system will evolve in a way that will allow the Council to use the occasion of disputes to consider and articulate "best" rules.[67] But, until some body in the WTO—the panels, the Appellate Body, or the Council—develops a capacity to give generally applicable interpretations of the law, disputes will need to be resolved under some other source of law.

One obvious source is the World Intellectual Property Organization. As the administrator of the Madrid Arrangement, and especially the Berne and Paris Conventions, WIPO has a special claim to a role in articulating international intellectual property norms. Its practice of appointing informal groups of experts to consider disputes under the treaties it administers provides, at least in theory, a mechanism for finding best rules. Besides, drawing on WIPO resonates well with the negotiating history of the TRIPS Agreement: the Uruguay Round would not have produced TRIPS had not the administrators of WIPO participated in the identification of generally accepted international norms. The TRIPS Agreement itself contemplates (in article 68) that the Council will consult with WIPO and "shall seek to establish . . . appropriate arrangements for cooperation with bodies of that Organization." We view this provision as a mandate to the TRIPS Council—and to the GATT/WTO system as a whole-—to keep up with developments in intellectual property law. Thus, drawing on developments within WIPO seems to be an attractive solution, at least in the early period of the WTO when both the DSU and the TRIPS Agreement are still to some extent in experimental stages, and probably in the long run as well.

The problem with this suggestion is that while it is in harmony with WIPO's aspirations, it fails to take into account WIPO's past performance. WIPO has tended to operate through coordinated group voting rather than through genuine consensus building. For at least the last fifteen years, politicization of deliberations in WIPO has interfered with its lawmaking efforts. Indeed, one principal reason that intellectual property wound up in the WTO was that WIPO had become unable to keep its treaties responsive to the needs of the innovation community. Another reason for the embrace of intellectual property by the WTO is, of course, that only the WTO, as it emerged from the Uruguay Round, has an effective enforcement mechanism. If this mechanism produces a substantial body of decisions at the frontier of intellectual property law, it will inevitably exert an influence over developments within WIPO. . . .

It may seem attractive, at least until the transition period is over, or until an arrangement for coordination with WIPO develops, for panels working on a difficult question to consult the laws of developed countries. If a good solution to the problem of, say, drawing the line between ideas and expressions in computer program cases has been found, a panel could adopt such a solution in an international context. The member states would, under this approach, function as laboratories—much as states or provinces do in a federal system. Once one jurisdiction finds a position that appears to work over time, the GATT/WTO system would provide a mechanism for internationalizing that rule.[68] As attractive as this option may seem, however, we would urge the same caution that we suggested with respect to case-by-case adjudication. The risk of looking to early solutions of national authorities is that predominant attention would be given to the states with the most-developed and sophisticated technology, whose priorities may not be the same as for all members of the WTO.

More fundamentally, we are skeptical that there will always be a "best" rule for every problem that will arise under the TRIPS Agreement. Promoting innovation requires that care be taken not to raise the cost of knowledge to so high a level that it impedes further inventiveness. How that problem is best solved can depend on a country's intellectual and industrial development, its culture, and the types of creative work in which its citizens are engaged. Thus, the nature (and advantage) of a minimum standards regime is that where there is no "best" rule that will work in every economy, each country can tailor the law to its own needs. In short, in areas such as those presented by Case I, where the issue involves that balance between users and producers, drawing the rules from solutions worked out elsewhere—particularly in highly developed economies—may be inappropriate.

D. Deciding Case I

Coming back to Case I, the preceding discussion leads us to urge that a panel begin by according a degree of deference to Patria's own decision in the Macrohard case. Assuming the courts of Patria have made a careful evaluation of the controversy free from improper influences or discrimination by nationality, a WTO panel ought to be reluctant to condemn the result reached by those courts. The panel might inquire whether the Macrohard case was an exception or reflected a pattern of decisions by Patrian authorities that ought to be judged by the TRIPS/WTO dispute settlement mechanism. If a policy concerning protection of computer programs emerged, the panel should inquire (1) whether Patria was furthering a goal shared by countries that protect computer programs (in this case, releasing ideas, as contrasted with applications, into the public domain); and (2) whether Patria's announced law or policy (here, its law differentiating between ideas and copyrightable expression) is recognized elsewhere. If both these inquiries result in affirmative answers, the panel should operate on a presumption that Patria's law and announced policy conform to its treaty obligations. The burden would then shift to Xandia to show the practice is inconsistent with its announced policy by failing to protect the innovations it purports to protect. Xandia might seek to demonstrate that Patria's programming cases lack justification, or that the relevant officials of Patria had disclosed an intent either to avoid the provisions of article 10 of the TRIPS Agreement or to discriminate against foreign holders of programming copyrights.

In the final analysis, a combined approach may be the best way to effectuate the concept of minimum standards. Deference to WIPO when there is an international norm on which member states have agreed would allow the WTO to assume the enforcement role long missing from the Berne and Paris Conventions. In the absence of such a norm, deference to each state's own law is appropriate, on the theory that lack of consensus is an indication that there is no "best rule" and that different economies and cultures require different rules.[69]

NOTES AND QUESTIONS

1. **Early TRIPS Litigation**. Dreyfuss and Lowenfeld predicted that much WTO TRIPS litigation would involve complaints by developed countries against developing countries. This prediction has been borne out in part. In the first four years, 16 TRIPS dispute resolution proceedings were initiated (concerning 12 discrete matters), comprising 10% of all cases initiated before the WTO to that point. *See* Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, J. INT'L ECON. L. 347 (1999). A continually updated summary of the status of WTO proceedings generally (not limited to TRIPS matters) can be found at

http://www.wto.org/wto/dispute/bulletin.htm. Geuze and Wager summarize the early position as follows:

> Of these 16 disputes [concerning 12 matters], eight have been resolved. Five have led to a mutually agreed solution as a result of consultations between the parties in the first stage of the dispute settlement procedures, i.e., without recourse to a panel. In four cases, a panel was established and in three of these the procedure has been terminated; one of the three panel reports was appealed. . . . The United States has initiated most of the cases in the TRIPS area, namely 11, followed by the European Communities and their member states, who have initiated four cases; the remaining complaint was filed by Canada. The United States addressed complaints to, in chronological order, Japan, Pakistan, Portugal, India, Indonesia, Ireland, Denmark, Sweden, the EU, Greece, and, again, the EU.

Id. at 348-49; *see also* The WTO Appellate Body: The First Four Years, 1 J. WORLD INTELL. PROP. 425 (1998). Why does this record from 1995-1999 depart in part from the developed/developing country alignment that Dreyfuss and Lowenfeld predicted? In what ways might the alignment of complaining and defending members affect either the success of TRIPS or the content of international intellectual property law?

2. **Initiation of Complaints.** How would Macrohard have successfully "prevailed upon" Xandia to bring an action against Patria? In what ways will the need of private firms to "prevail upon" their governments to bring actions shape the content of international intellectual property law? Can Xandia (or Macrohard) really complain that Patria is engaging in a pattern of nonenforcement based upon this single adverse judicial decision? This is an aspect of trade relations that TRIPS brings to the fore. Should Macrohard be obliged to exhaust its remedies (or at least its judicial remedies) in Patria before bringing the action before the WTO? To what extent, should WTO complaints be built upon single judicial decisions? Or should a failure by the Xandian legislature to address unsatisfactory judicial decisions be the triggering event?

3. **Interpretive Approaches.** What does the obligation in Article 10 of TRIPS to protect computer programs "as literary works" mean? No country has applied its traditional copyright law to computer programs without some adjustment for the particularities of software; so it would appear unlikely that the drafters intended for there to be no form of special tailoring for software. How do we interpret its meaning in international law?

(a) *Relevance of Minimum Standards.* As Dreyfuss and Lowenfeld note, the TRIPS Agreement embodies minimum standards, not optimal standards. How should that affect interpretive devices and considerations that domestic courts might employ in resolving cutting-edge issues? Should Xandia and Patria be able to argue over whether treating the Macrohard program as nothing more than a "method of operation" results systemically in the most efficient and pro-competitive balance between producers and second comer innovators? Can and should WTO panels reach the issue of what is an appropriate exclusion of "methods of operation"? *Cf.* Lotus v. Borland, 49 F.3d 807 (1st Cir. 1995) (reversing district court and denying protection to menu command hierarchy of spreadsheet program) *,aff'd by an equally divided court*, 516 U.S. 233 (1996), *supra* Ch. III. Can this answer be resolved as a question of textual interpretation, rather than as a question of optimal competitive balance? *See id.* (Boudin J., concurring).

(b) *Relevance of Article 3(2) DSU.* Article 3(2) provides that rulings of the DSB "cannot add to or diminish the rights and obligations provided in the covered agreements". How should this affect the way in which we interpret the TRIPS Agreement? (Article 9(2) of TRIPS provides simply that copyright protection shall not extend to methods of operation, without further elaboration.) Are there any domestic approaches to statutory interpretation that Article 3(2) would appear to embody? Is it possible for panels to heed this instruction? *See* Neil W. Netanel, *The Next Round: The Impact of the WIPO Copyright Treaty on TRIPS Dispute Settlement*, 37 VA. J. INT'L L. 441, 445 (1997) (suggesting that "many of TRIPS's copyright provisions are highly indeterminate, leaving considerable room for varying interpretation and application"). Can panels engage in "gap-filling" consistent with the above-quoted language from Article 3(2) of the DSU? Can panels "provide security and predictability to the multilateral trading system," DSU, art. 3(2), without gap-filling? Petro Mavroidis has argued that "when you discuss a multilateral agreement between one hundred and thirty-two members of different development, different culture, different everything, the end product can only be at a level of generality that it invites interpretation by definition." The WTO Appellate Body: The First Four Years, 1 J. WORLD INTELL. PROP. 425, 434 (1999). Do you agree? How should the interpretation of the TRIPS Agreement by WTO panels be affected by the fact that language was intentionally used in TRIPS "that allowed each state to read into the Agreement what it wished to see"?

(c) *Customary Rules of Interpretation.* Article 3(2) of the DSU also affirms that dispute settlement is intended 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." These rules of interpretation are found in the Vienna Convention on the law of Treaties, *see supra* Ch. IV, and thus permit reference in much of the copyright context to the Berne Convention and state practice thereunder, in addition to the negotiating history of TRIPS referenced by Dreyfuss and Lowenfeld. *Cf.* Laurence R. Helfer, *Adjudicating Copyright Claims Under the TRIPS Agreement: The Case for a European Human Rights Analogy*, 39 HARV. INT'L L.J. 357, 431 (1998) (suggesting that panels should rely on emergent state practice where there is concordant state practice in all four developmental categories). What relevance and role did the panel in *United States-Section 110(5) of the U.S. Copyright Act*, *supra* Ch. VI, assign to the different exemptions granted under national copyright laws? Does this fit with the use that Dreyfuss and Lowenfeld suggest panels make of national approaches to the copyright protection of computer programs in deciding Case I?

(d) *"Berne in TRIPS".* Reference to "the Berne Convention" and state practice thereunder is not, however, as simple it sounds. Neil Netanel has helpfully phrased the dilemma as whether there is a difference between "Berne qua Berne" and "Berne in TRIPS". He concludes that "state practice under Berne should indeed be the fundamental starting point for interpreting Berne in TRIPS, although the Berne provisions that are incorporated into TRIPS will necessarily be colored by TRIPS's state practice and overall object and purpose as well". Neil W. Netanel, *The Next Round: The Impact of the WIPO Copyright Treaty on TRIPS Dispute Settlement*, 37 VA. J. INT'L L. 441, 447 (1997). Did the panel's report in *United States-Section 110(5) of the U.S. Copyright Act*, *supra* Ch. VI, reflect this distinction? In what ways is the broader context of TRIPS different from the context and content of Berne such that the embedding of Berne in TRIPS might tilt the balance of interpretation in favor of the rights holder? *See id.* at 455-63; *see also* TRIPS, arts. 7-8. Is that what the architects of incorporating Berne within TRIPS sought to achieve? In what ways other than "tincturing" the provisions of Berne with a "trade hue", as Netanel puts it, might the provisions of TRIPS affect the interpretation of the Berne Convention? *See* Vienna Convention, art. 31(3). The decision to bring the Berne Convention within the GATT framework could have been achieved in a number of ways, including: repeating the text of the Berne Convention verbatim in the text of TRIPS, requiring all WTO members to adhere to the Berne Convention, or incorporating the terms of the Convention (absent Article 6*bis*) by reference. What is the significance of the parties choosing the last of these three options? How would WTO panel interpretation of Berne provisions be affected by the choice made by the drafters? *See* Netanel, *supra*, at 452-53.

(e) *Other sources.* Netanel has also argued that "the international law of freedom of expression should require a WTO dispute panel to balance the TRIPS objective of rigorous intellectual property protection with the need for breathing space for public access to and creative reformulations of existing cultural expression. In particular, the dispute panel should accord considerable deference to an allegedly noncompliant member state's own interpretation of TRIPS where that interpretation reflects such free speech concerns." *See* Netanel, *The Next Round*, at 448; *see also* Laurence R. Helfer, *Adjudicating Copyright Claims Under the TRIPS Agreement: The Case for a European Human Rights Analogy*, 39 HARV. INT'L L.J. 357, 433 (1998). Which provision of the Vienna Convention authorizes resort to this source? Netanel argues that an international standard of free expression *permits* member countries to provide certain free-expression based exceptions to copyright, and is relatively less assertive as to whether it requires member countries to create such exceptions. If an "international law of freedom of expression" is relevant to interpreting the scope of TRIPS, why does it not *mandate* free expression-based exceptions? What is the content of the "international law of freedom of expression"? *See* Universal Declaration of Human Rights, art. 19. Are WTO panels competent to consider questions of the appropriate international norms of free expression? Is it possible to address

questions of copyright without some regard for free expression values?

(f) *Interpretive Focus*. Do you agree with reference to the different sources—TRIPS negotiating history, domestic laws, developments in WIPO—to which Dreyfuss and Lowenfeld turned for guidance? What should be the focus of the interpretive process required to decide Case I between Xandia and Patria? That is, what precisely is a WTO panel trying to decide when confronted with Case I? Does the reasoning behind Dreyfuss and Lowenfeld's suggested resolution of Case I reflect that focus? If there are other considerations or criteria underlying their conclusion, what are they? Are they appropriate or necessary?

Scholars in the United States have noted the parallel between domestic judicial interpretation of statutes and treaties. Which devices of statutory interpretation do you think should have, and should not have, application in interpreting treaties? Does this vary whether the interpretation is by courts construing their effect in domestic law or international panels construing their meaning as part of international law? What other jurisprudential tools would be appropriate in this context? In what ways might an activist DSB be of greater concern than an activist domestic court? *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 464-65 (1998) (comments of Thomas Cottier).

Larry Helfer has argued that in developing a methodological approach to TRIPS disputes, WTO panels could learn from and build upon the experiences of the European Court of Human Rights. *See* Laurence R. Helfer, *Adjudicating Copyright Claims Under the TRIPS Agreement: The Case for a European Human Rights Analogy*, 39 HARV. INT'L L.J. 357 (1998). Helfer bases this suggestion upon systemic or structural similarities between the two bodies: (i) interpretation of minimum standards of international obligation; (ii) national discretion as to the means of implementing international obligations in national law; (iii) historical divergence in national approaches to the subject matter; and (iv) risks of non-compliance with rulings of the relevant tribunal. Helfer concludes that these structural characteristics make an analogy to the European Court of Human Rights (which is not part of the EU system) more persuasive than seeking to learn from the European Court of Justice. The European Court of Human Rights adjudicates claims brought by citizens of 30 European countries against their governments under the European Convention on Human Rights. In light of your reading of EU materials, which aspects of the EU system and the role of the ECJ support Helfer's conclusion? (In what ways is the WTO system different from the EU system? In what ways is it similar?) Helfer's argument would suggest that WTO panels refrain from the teleological mode of interpretation adopted by the ECJ, and instead rely on far less dynamic forms of interpretation.

4. **Third Party Involvement**. Dreyfuss and Lownfeld note that the limited role permitted to third parties "may well distort the decision making process viewed at long range." In what ways might this occur? The panel's report in *United States-Section 110(5) of the U.S. Copyright Act*, *supra* Ch. VI, made frequent reference to submissions made by Australia. On what basis was Australia allowed to make submissions to the panel? In what ways did it help the panel?

If the International Organization for Open Source Code, a non-profit group committed to open source code, were able to participate in the process, how might this affect the development of international intellectual property law? In *United States-Import Prohibition of Certain Shrimp and Shrimp Products*, the Appellate Body interpreted DSU article 13 as permitting panels to accept amicus briefs and other submissions by interested persons other than governments. *See* Report of Appellate Body, WT/DS58/AB/R, ¶ 110 (Oct. 12, 1998). Is this appropriate? Is it meaningful or appropriate absent other moves toward a more open and inclusive process? Would it assist panels in making the determinations that they are instructed to make? What more would you need to know about the International Organization for Open Source Code in order to answer this question?

5. **Nonviolation complaints**. Because Xandia's claim was filed before January 1, 2000, Patria sought to take advantage of the five year moratorium on nonviolation proceedings. *See* TRIPS, art. 64. What are the arguments for and against the use of nonviolation complaints? *See* ERNST-ULRICH PETERSMANN, THE GATT/WTO DISPUTE SETTLEMENT SYSTEM: INTERNATIONAL LAW, INTERNATIONAL ORGANIZATIONS AND DISPUTE SETTLEMENT 173 (1997) (arguing against the use of nonviolation complaints in TRIPS cases). If Patria, because it grants copyright protection to computer programs, has not violated a defined obligation of TRIPS, does that not mean that the countries have retained sovereignty beyond that issue?

(a) *Moratorium*. Even if the arguments in favor of nonviolation complaints are persuasive, are there arguments for extending the moratorium? Several countries have argued for the temporary extension of this moratorium; others have suggested eliminating the possibility of nonviolation actions. The status of the moratorium is currently being debated in the TRIPS Council. At the March 2000 TRIPS Council meeting, several countries suggested that the moratorium should remain in effect until new provisions on the "scope and modalities" of nonviolation complaints are agreed upon as contemplated by the TRIPS Agreement. The United States favored ending the moratorium, and took the position that the moratorium had automatically expired on January 1, 2000. (But the United States indicated that it is not preparing non-violation cases for the near future, and would for the moment restrict TRIPS complaints to violation vases).

(b) *Characterization of the Complaint.* Dreyfuss and Lowenfeld suggest that characterization of a complaint as a violation or noviolation complaint should depend upon whether the reason for the characterization is the application of the moratorium (which would favor classification as nonviolation) or the requirements in nonviolation cases of demonstrating reliance and injury (which would favor classification as a violation complaint). Accepting the persuasiveness of that distinction, if the moratorium on noviolation complaints is extended, and the action by Xandia was brought after January 1, 2000, which approach to characterization should a panel adopt? Is there an alternative approach to characterization that should be used in that context?

(c) *Elements of a Nonviolation Complaint*. Dreyfuss and Lowenfeld suggest, that if the Xandian action were classified as a nonviolation complaint, it should be the firm rather than the complaining state that would have the task of showing reliance. Why? What is different about nonviolation complaints that might be reflected in and effectuated by a "reliance" requirement? In light of that, how might you frame a reliance requirement other than requiring Macrohard to establish that a specific decision to invest was made in express reliance on protection in Patria?

(d) *Interpretive Approaches in a Nonviolation Case*. If the panel in Case I had classified the Xandian complaint as a nonviolation complaint, would the panel be required to adopt a different interpretive approach than that developed in deciding the matter as a violation complaint? *See* Joel P. Trachtman, *The Domain of WTO Dispute Resolution*, 40 HARV. INT'L L.J. 333, 370 (1999) (arguing that the nonviolation concept "serves as an invitation to construction, or a catch all, to limit defection by WTO members through the use of avenues of defection with respect to which they have accepted no positive commitment"). Trachtman characterizes nonviolation decisions as involving "construction" rather than "interpretation" of the treaty. In what ways are those two processes different? *See id.* at 339. Is dynamic interpretation and gap-filling more or less appropriate in adjudicating nonviolation complaints?

The panel in a non-TRIPS case, Japan–Measures Affecting Consumer Photographic Film and Paper, WT/DS44/R (98-0886) (WTO Panel, Mar. 31, 1998), has interpreted the scope of nonviolation complaints narrowly to require that the challenged measures could not have been reasonably anticipated at the time of the treaty negotiation. What effect would a similarly strict interpretation of the scope of nonviolation actions under TRIPS have on the future conduct of intellectual property treaty negotiation?

INDIA —PATENT PROTECTION FOR PHARMACEUTICAL AND AGRICULTURAL CHEMICAL PRODUCTS

Doc. WT/DS50/AB/R (WTO Appellate Body, Dec. 19, 1997)

. . .

. . .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.[70] 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.*[71] (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 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*. . . .

NOTES AND QUESTIONS

1. **The role of legitimate expectations**. Why did the Appellate Body find that the panel had misapplied Article 31 of the Vienna Convention? In what way, according to the Appellate Body, are the "legitimate expectations" relevant to interpretation of the TRIPS Agreement? For a detailed discussion of the panel and Appellate Body reports, see Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, J. INT'L ECON. L. 347, 365-67 (1999) (summarizing arguments).

2. **The argument for circumspection.** The Appellate Body report notes, circumspectly, that "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." Does this answer the dilemmas posed above regarding interpretive approaches? Indian commentators viewed the Appellate

Body decision in *United States-India* as much preferable to the panel decision because they believe it adhered more closely to the TRIPS Agreement that was negotiated. Jayashree Watal went so far as to say that the Appellate Body decision "restores some of the faith that we had lost in the WTO." The WTO Appellate Body: The First Four Years, 1 J. WORLD INTELL. PROP. 425, 432 (1999) (comments of Jayashree Watal). Does this observation affect how you think the TRIPS Agreement should be interpreted? In order to fulfil the objectives of the dispute settlement process, to which values must the Appellate Body adhere most faithfully? Are these values different from those that should motivate the TRIPS Council? If so, why? Joel Trachtman has noted that in the *Shrimp-Turtle* case, the WTO Appellate Body "refined its interpretive tools by rejecting a strict 'original intent' interpretation . . . in favor of a more dynamic interpretation to fit modern circumstances. In doing so, it aggregated substantial power to itself, both to engage in balancing and to 'modernize' the interpretation of Article XX [of the GATT]". Trachtman, *supra*, at 364. How would the extension of that interpretive philosophy to TRIPS disputes affect the development of international intellectual property law? In what ways would the decision by WTO panels to adopt a dynamic gap-filling methodology or a minimalist textualist methodology affect the future conduct of international intellectual property relations? Paul Edward Geller, *Intellectual Property in the Global Marketplace: Impact of TRIPS Dispute Settlement*, 29 INT. LAW. 99, 113 (1995).

3. **Stare Decisis.** The panel in *The EU* v. *India* indicated that it did not feel bound by the reports of the panel or the Appellate Body in the *United States* v. *India*. *See* EU v. India, Panel Report, WT/DS79/R, ¶ __. Why not? Should it have? *See* Adrian T. Chua, *Precedent and Principles of WTO Panel Jurisprudence*, 2 BERK. J. INT'L L. 171, 172-74 (1998). Does failure to apply principles of stare decisis undermine the purposes of the WTO adjudicative system? *Cf.* DSU, art. 3.2. Would the adoption of a system of binding precedent have generated other unfavorable consequences? What lesser presumptions might the panel in *The EU* v. *India* have considered even if it did not feel formally bound by the precedent of the *United States* v. *India*? *See* EU v. India, Panel Report, WT/DS79/R, ¶ __ (discussing EU's prima facie case). In large part, the position adopted by the *EU-India* panel merely reflected the practice of pre-WTO GATT panels. In what way does the nature of the new WTO proceedings (as opposed to the prior GATT practice described in the Dreyfuss and Lowenfeld article) support, or undermine, the development of a system of binding precedent? Could it be argued that earlier panel reports adopted by the DSB are part of "subsequent practice in the application of the treaty" under Article 31(3)(b) of the Vienna Convention on the Law of Treaties and thus part of the "customary rules of interpretation of public international law" under Article 3.2 of the DSU? *See* Japan—Taxes on Alcoholic Beverages, Appellate Body Report, Nov. 1, 1996, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R (discussing whether the adoption of a panel report should be treated as subsequent practice, defined by the Appellate Body as "a 'concordant, common and consistent' sequence of acts or pronouncements sufficient to establish a discernible intent implying the parties' agreement regarding its interpretation"); *see also* Chua, *supra* at 183-85 (arguing that panel reports might constitute binding precedent in certain circumstances notwithstanding *Japan-Alcoholic Beverages*). In what ways are the considerations supporting characterization as subsequent practice under international law inconsistent with those considerations that would support treating panel reports as "binding precedent" in the sense that that term is used in common law jurisdictions adjudicating disputes between private parties? What does this tell you about the nature of public international law?

4. **The GATT acquis.** The term "GATT acquis" has been adopted by the Appellate Body as a useful term by which to describe the pre-existing body of GATT practices and understandings. The term *acquis communautaire* is commonly found in the case law of the European Court of Justice. There, it means the "whole body of rules, principles, agreements, declarations, resolutions, opinions, objectives and practices concerning the European Communities . . . whether or not binding in law, which has developed since their establishment and which has been accepted by the Community . . . as governing their activities." Mary Footer, *The Role of Consensus in GATT/WTO Decision-Making*, 17 NW. J. INT'L L. BUS. 653, ___ (1996-1997).

DREYFUSS AND LOWENFELD, CASE II: THE SCOPE OF PROTECTION

In many ways, limitations on the subject matter entitled to protection provide rather coarse control over the balance between public access and private incentives. By fencing off entire fields from protection, such limitations make intellectual property law unavailable as a source of encouragement for whole industries. Moreover, they skew the decisions that individual innovators make about where to invest their resources. Ironically, industries devoted to subject matter that is considered too socially important to protect can wind up being underfunded. For this reason, it makes sense for states to be generous on the question of subject matter protectability, and then to safeguard the public's interest in access in more finely tuned ways. For example, a state may tighten the scope of what it considers infringement—adjusting the degree of similarity for finding infringement of copyrights, and the degree of equivalence needed for finding infringement of patents.[72]

For the TRIPS Agreement, the ability to fine tune raises the danger that a member state could use these measures in the way we previously discussed for coarse tuning: to appear to comply with the Agreement while really sidestepping its obligations. As to that issue, what we have said previously applies here as well. In this section, we discuss the role of the GATT/WTO system in considering the more subtle question of whether the particular balance that a state strikes is permissible under the TRIPS Agreement.

Case II

> Monastery Labs developed a new pharmaceutical for treating Sallyheimer disease. The drug, a complex organic compound bound to magnesium, is patented both in Monastery's home country, Xandia, and in Patria, a developing country that has adopted patent legislation conforming to the TRIPS Agreement. A Patrian pharmaceutical company sells the same complex compound, except that its product substitutes manganese for magnesium. Monastery Labs sued the Patrian company in Patria, but lost. The court found (1) that before Monastery Labs invented this compound, it was common knowledge that Sallyheimer sufferers had a problem with metals, so this compound was not inventive enough to qualify for protection; and (2) that Monastery's patent described "alkaline earth metal bonds" and manganese is not an alkaline earth metal, with the result that the Patrian company's product does not infringe Monastery's patent. Monastery prevailed upon the government of Xandia to bring a complaint to the WTO. Again, after consultation, the dispute was referred to a panel for resolution.

The complaint alleges that Patria violated article 27(1) of the TRIPS Agreement by requiring an inventive leap rather than an "inventive step." Further, the complaint asserts that Patria permitted infringement of Monastery's valid patent, thereby violating article 28(1)(a) by failing to prevent others from using Monastery's insight without its authorization. Patria, in its answering papers, contends that its courts applied settled principles of Patrian patent law, without discriminating by nationality, on the basis that an applicant for monopoly protection has a heavy burden of establishing both nonobviousness[73] and infringement.

A. Alternative Approaches

It is not clear, at the outset, how a WTO panel should resolve this controversy. Case II demonstrates how differently two countries could administer intellectual property laws that ostensibly comply with the TRIPS Agreement. At one time, a court in the United States, for instance, might have handled this case as follows: if it found that the identification of a metals problem was part of the art existing prior to Monastery's invention, it might consider using magnesium compounds "obvious to try." It would then ascertain how many

metal-delivery systems there are. If there are many, it could hold Monastery's discovery patentable on the theory that the ordinary artisan would not have found this one easily. The inquiry on infringement would be, in a sense, the reverse: the court would inquire whether it would be obvious to the ordinary artisan to substitute manganese for magnesium–a question that in another context the U.S. Supreme Court has already answered in the affirmative. Accordingly, under the doctrine of equivalents as applied in the United States, Monastery's patent would be considered to be infringed.

One could easily imagine that Patria could take a very different approach. If it is a developing or least-developed country, the transition provisions in the TRIPS Agreement give it a grace period before it is required to extend patent protection to such products.[74] A decision to enact legislation concerning pharmaceuticals without such delay could well indicate that Patria is trying to promote indigenous research and development. A research and development industry, however, requires a technologically trained labor force. One way to encourage the creation of such a resource might be by teaching unskilled labor to work in laboratories. That strategy, in turn, would require that there be meaningful work for this labor force to do. Finding alternatives to expensive foreign medicines certainly seems like an attractive objective. Thus, it might make sense for Patria to reject the "obvious to try" doctrine and argue that in developed countries patent protection is needed in this context to motivate someone to engage in the labor-intensive effort of finding the right choice among many, but that in Patria, where a cheap labor force is looking for work, trudging through obvious alternatives requires no particular encouragement. In other words, supracompetitive profits should be reserved to those who confer genuinely unique and major social benefits by denying a separate patent to the sort of advance over prior art that Monastery's invention represents. Alternatively, Patria could allow its work force to train on Monastery's invention by deciding that any rights that Monastery wishes to assert must be expressly claimed in the patent document. That would release variations for domestic researchers to find. In short, whether these arguments are after-the-fact rationalizations or actually describe Patria's motivation, the challenged failure to grant Monastery the same protection it receives in the home country is not an obvious or clear violation of the TRIPS Agreement.[75]

B. Special Treatment for Developing Countries

If this dispute were brought during the transition period allowed to developing and least-developed countries, Patria might argue that since it was not yet required to offer patent protection to Monastery, Xandia should not be heard to complain that Patria offers less protection than Xandia finds ideal. To evaluate this position, two issues must be decided: first, whether Patria is a country that can avail itself of the special benefits offered to developing economies, and second, the exact scope of these special benefits.

. . .

Assuming that Patria qualifies as a developing country, the next question is how much leeway it should be given on that account. One might conclude that the transition provisions are exclusive and that once a country moves out of the transition period (voluntarily or under the pressure of time limits), it is expected to conform its laws in every respect to the norms of the developed world. There are, however, significant reasons to refrain from taking so hard a line. It is important to remember that the impact of the TRIPS Agreement on the developing world was not comprehensively considered at the time the Agreement was drafted. The principal negotiators were almost uniformly interested in strengthening the international intellectual property regime. And because the GATT/WTO system requires its members to accept all the principal agreements negotiated in the Uruguay Round, there was no practical way for any country, including Patria, to stay outside the TRIPS Agreement.

Now that there is time to be more reflective, we should recognize that as far as developing countries are concerned, the TRIPS Agreement could have a substantially different impact from the remainder of the WTO agreements. One effect is obvious: the cost to member states of enforcing intellectual property rights is formidable. Monitoring is expensive, the obligation to destroy infringing materials entails high social costs, and countries with weak civil justice systems must spend the money to create them. All of this is in addition to the cost of setting up copyright, trademark, and patent offices and staffing them with trained personnel.

Even after these costs are borne, the TRIPS Agreement may present a significant problem to developing countries. Experience shows that in other economic sectors, comparative advantage tends to shift over time. As each party has (more or less) an equal opportunity to acquire an advantage in any economic sector, each trade barrier that is lowered is either a current benefit or a potential benefit. In contrast, it can be argued that a technologically undeveloped country that agrees to the TRIPS Agreement is handicapping itself. Instead of following the strategy (which many developed countries once pursued) of absorbing the world's knowledge base and coming up to technological speed before protecting foreign intellectual property, a country that enters into the TRIPS Agreement at this stage, before it has a creative community in place, may well raise the costs of acquiring the knowledge it needs. The TRIPS Agreement might, therefore, improve the *incentives* for a developing country's citizens to become innovative, but put the *cost* of becoming innovative out of reach. The opposite argument, which prevailed in the Uruguay Round (though one can debate how much choice the developing countries had at the end) is that by providing secure protection for intellectual property, a member state can remain in the mainstream of technological progress, while denying protection might leave it on the sidelines of innovation.[76] . . .[T]hese considerations suggest that unless the TRIPS Agreement is sympathetically interpreted to safeguard public access, it could wind up preventing certain member states from ever becoming players in the intellectual property sector.[77]

C. Deferring to Patria

All of this goes to argue that on the substantive side, Patria's decision ought to be given considerable deference. Allowing Patrians to make variations on Monastery's drug without incurring the costs of infringement is one way to develop the skills Patria needs if it is ever to see advantages from joining the TRIPS Agreement. Accordingly, whereas in Case I we suggested that deference to Patria's own decisions may properly depend on whether Patria was taking positions consistent with policies of states with demonstrated commitments to intellectual property, in Case II it would probably be wise for a WTO panel—at least with respect to developing countries—to defer even in circumstances where Patria's decisions look quite atypical.

Even if Patria were not a developing country, the better course might well be to make it nearly impossible to prevail before the WTO on a complaint involving fine-tuning, except on an additional showing of violation of the non-discrimination provisions–national treatment and most-favored-nation treatment. Although the TRIPS Agreement is drafted as a set of standards for the protection of innovators, there are two sides to every innovation coin: the greater the protection granted to the innovator, the less is the public's access to the products of intellectual activity. To the extent that DSU panels are instructed not to "diminish rights or obligations," they should be equally careful not to diminish the rights that users of innovative efforts have in particular countries.[78] Again, this is the core difference between a minimum standard and an optimum or harmonized rule: a minimum standard allows each member state to create a law that is suited to the needs of its own creative community; an "optimum" rule would, in contrast, require each state to adopt a single law, whether it was right for its economy or not. The drafters of the TRIPS Agreement chose minimum standards, just as the drafters of the Berne and Paris Convention did. We agree with that choice because we believe that it best promotes innovation.[79]

Further, disputes involving fine-tuning can be quite different from cases where the respondent is charged with a clear failure to protect innovative works. The failure to protect intellectual products often results in counterfeiting. In Case I, for example, Patria was countenancing sales of pirated programs. The campaign against counterfeiting was the original incentive for the Uruguay Round to become engaged in the field of intellectual property, and so it makes sense to entertain claims that a country is systematically failing to protect subject matter. Of course, to the extent that Case II was decided on the ground of no infringement, there was no counterfeiting. Patria's

laws permitted a product very similar to the protected product to go on the market. However, creating that product required considerable investment. Since the Patrian defendants did not get a free ride, it is unlikely that they could price Monastery out of the Patria (or world) market. Indeed, Monastery's product remains attractive to any Sallyheimer sufferer intent on purchasing the "real thing."[80]

Other issues of fine-tuning–for instance the scope of the fair use defense in copyright–call, in our judgment, for a similar approach in the WTO. The United States, for example, permits certain unauthorized uses of copyrighted materials for socially worthy purposes, so long as the "potential market for or value" of the work is not unduly sacrificed. The TRIPS Agreement countenances exceptions to protection, but only for "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."[81] Whether these provisions are consistent with one another is not at all clear. Yet, it seems to us that panels ought to tread lightly in this area. Indeed, member states ought to resist pressures from their constituents to bring complaints involving such issues to the WTO. The extent to which fair use is considered necessary depends on fundamental national values such as the importance and extent of free speech, on artistic traditions, and on aesthetic sensibilities.[82] Setting a worldwide standard on this issue would, therefore, reduce flexibility and produce a kind of cultural homogenization that might either induce noncompliance or turn the world into a much less stimulating environment.

In the final analysis, the way to handle complaints about fine-tuning may be the same in all cases. There ought to be a presumption that these issues are for individual member states, with intervention by the international community only on the basis of a showing of a pattern of discrimination or failure to grant protection without defensible reasons.

NOTES AND QUESTIONS

1. **Developing Countries.** Developing countries such as Patria in Case II have been given some preferential treatment by way of transitional provisions delaying the application of the TRIPS Agreement. Moreover, Article 67 of the TRIPS Agreement calls on developed country Members, on request and on mutually agreed terms, to lend assistance (meaning both financial and technical) to developing country members. Professor Reichman has argued that "by shifting international intellectual property protection to the framework of multilateral trade negotiations, developed countries have implicitly acknowledged that compensation has become the new master principle." J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 INT. LAW. 345, 384-85 (1995). In particular, Professor Reichman suggests that developing countries under pressure to enact higher standards of protection may present "counterclaims for the higher social costs that such standards would entail." *Id.* What are the costs to which Professor Reichman refers and to what extent would the measures included in TRIPS to assist developing countries affect the viability of such claims?

2. **Articles 7-8 of TRIPS**. If Patria sought to support its argument of compliance by reference to the purpose of the agreement, in what way could it make use of Article 7 of TRIPS, which provides that 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"? Do the arguments for Patria advanced by Dreyfuss and Lowenfeld find support in Article 7? Article 8(1) permits countries to adopt measures 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." To what extent could Patria rely on this provision to support its case? What are the limits of Article 8(1)? If a panel were to adopt a purposive interpretation of the Agreement, would the purpose of the GATT/WTO be the relevant purpose? The purpose of TRIPS? *Cf.* United States—Import Prohibition of Certain Shrimp and Shrimp Products, AB-1998-4, WT/DS58/AB/R (98-3899) (Appellate Body, Oct. 12, 1998) (using "purposes" in manner different from panel).

3. **Deference to Member Countries**. Dreyfuss and Lowenfeld conclude that in Case II a panel should display some deference to the ways in which Patria has implemented its TRIPS obligations, but base deference on a different rationale than Case I. What is the range of arguments for a WTO panel to exhibit deference to member countries? Why and in what circumstances do U.S. domestic courts accord deference to actions of administrative or legislative bodies? Are these reasons the same? *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 456 (1998) (comments of David Palmeter).

4. **Fine-tuning: exceptions and limitations**. Dreyfuss and Lownefeld characterize Case II as a case involving "fine-tuning." They are surely correct that such cases are particularly apt cases for deference to national determinations. Intellectual property law contains a series of fine-tuning devices. Is there a danger in articulating a rule of deference in all instances of "fine-tuning"? In copyright law, one could argue that fine-tuning is performed not only through the idea/expression distinction, but in the test for infringement, and in the range of exemptions and privileges found in the statute. Should exceptions in national law be afforded the same degree of deference by WTO panels? *See* Jane C. Ginsburg, *The Role of National Copyright in an Era of International Copyright Norms*, Paper Presented to ALAI at 23 (Berlin, June 1999) (commenting that "exceptions to copyright present a more difficult, but potentially persuasive, case" for reservation to national norms).

Certain fine-tuning devices may be subject to more explicit provisions of TRIPS. For example, Article 13 of TRIPS imposes specific constrains on the types of limitations and exceptions that can be imposed upon a copyright owner's rights. The law of almost every country contains exceptions that might be vulnerable if this provision is strictly interpreted. (What interpretive lesson should one draw from that observation?) To what extent might the arguments of deference advanced by Dreyfuss and Lowenfeld in discussing Case II between Xandia and Patria (and in discussing the general defense of fair use in U.S. law) have been of assistance to the United States in defending the Fairness in Music Licensing Act? *See supra* Ch. VI; *see also* Neil Netanel, *The Next Round: The Impact of the WIPO Copyright Treaty on TRIPS Dispute Settlement*, 37 VA. J. INT'L L. 441 (1997); Geert A. Zonnekeyn, *The Protection of Intellectual Property Rights Under The EC Trade Barriers Regulation: an Analysis of The IMRO Case*, Journal of World Intellectual Property 357 (1999); Laurence R. Helfer, *World Music on a US Stage: A Berne/TRIPS and Economic Analysis of The Fairness in Music Licensing Act*, 80 B.U. L. REV. 93 (2000). Did the WTO panel in *United States-Section 110(5) of the U.S. Copyright Act*, *supra* Ch. VI, show deference to the United States consistent with the approach suggested by Dreyfuss and Lowenfeld?

DREYFUSS AND LOWENFELD, CASE III: VIOLATION OF ANTITRUST LAWS, PATENT MISUSE, AND COMPULSORY LICENSING

Cases I and II were concerned with the problem of insuring that intellectual property protection does not undermine its own goals by interfering with or unduly raising the costs of innovation. Intellectual property law holds another risk–abuse of the market power created by exclusivity. For example, intellectual property licenses have been used to disguise cartel arrangements, to use power in one market as leverage for dominating another market, and to inhibit the incentive to innovate. Such effects are generally sought to be controlled through the concept of intellectual property misuse and through invocation of competition or antitrust laws. The negotiators of the Uruguay Round did not place competition law on their agenda . . . The TRIPS Agreement does, however, explicitly permit members to adopt appropriate measures to control abuse of intellectual property rights,[83] and provides certain guidelines as to the form that these measures might take.[84] Article 40(3) seeks to facilitate the effort to prevent the abuse of intellectual property rights by requiring each member state to consult on request with other members concerning alleged violations of the requesting member's competition law by intellectual property owners domiciled in the requested member state. As in other areas, the TRIPS Agreement lays down a floor; how far

states can circumscribe intellectual property rights in the name of furthering competition is not fully delineated.

Case III

> Bilker Metals, a Xandian company, is the world's largest producer of molten metals. It holds many important patents on molten metal technology. In 1996, the government of Patria filed a complaint in a Patrian court against Bilker, alleging that certain of its licensing practices limited the worldwide competitive opportunities of Patrian molten metal producers and chilled their incentives to innovate. Specifically, the complaint alleged that Bilker committed a per se violation of Patria's antitrust laws by requiring its licensees to accept licenses of both patents and know-how (a package license) for a period extending beyond the terms of the patents, and to undertake to assign to Bilker rights in any improvements made by the licensee (a grant back-provision). Further, the government of Patria alleged that Bilker was refusing to license the copyrights in its computerized servicing protocols. Because these protocols were the only cost-effective way to service the equipment needed to practice Bilker's inventions, the refusal amounted to a tie-in of equipment, patents, and servicing. If not an antitrust violation, Patria charged, the tie-in was a misuse of Bilker's copyrights that would render them unenforceable in litigation.
>
> Following extensive litigation, the Patrian court entered a decree enjoining Bilker from enforcing its grant-back and package-licensing provisions, and from utilizing its copyrights as servicing restrictions, anywhere in the world. Moreover, Bilker was ordered to grant worldwide licenses to Patrian firms for certain of its patented technologies at a reasonable royalty. After the Patrian court entered its decree, Xandia filed a complaint with the WTO. Under Xandian law, package licensing and grant backs are considered competition problems only when the technology being licensed has no reasonable substitutes and the patentee has substantial market power. Moreover, Xandia does not recognize the concept of copyright misuse; copyright holders are allowed absolute discretion over licensing decisions. Xandia's complaint asserts that the judgment of the Patrian court amounted to a compulsory license that violates article 31 of the TRIPS Agreement concerning the conditions of compulsory licenses, frustrates the objectives of the TRIPS Agreement set out in article 7, and undermines the principles of article 8(2), which permit only "appropriate measures" to prevent abuse of intellectual property rights.

A. Tensions Between TRIPS, Trade Law, and Antitrust

Case III illustrates the problems we noted in the Introduction concerning the differing goals of trade law and intellectual property law. When competition law is included, the problems become even harder to sort out. On the one hand, the Patrian judgment in Case III could be said to encourage innovation: freed of grant-back obligations, Patrian molten metal producers have the incentive to improve on Bilker's technology. The judgment could also be said to promote trade in that it allows Bilker's competitors to sell molten metals and related technology on a worldwide basis. Moreover, the prohibition against tie-ins and package licensing could further the objective of the TRIPS Agreement to employ technological innovation "in a manner conducive to social and economic welfare," in that it may lower the worldwide cost of using Bilker's technology both during the term that the intellectual property rights are in force and after they expire.

On the other hand, the judgment also might have significant anti-innovation, competition, and welfare consequences. Patria's position on licensing could substantially restrict the manner in which innovators can capture the social benefits bestowed by their innovations, and reduce their capacity to coordinate developments in their fields. To the extent these restraints are imposed as per se rules—with no investigation of their competitive effect and no opportunity for Bilker to justify its practices—they diminish the incentive to innovate without evidence that they enhance competition.

Nor is it necessarily true that the Patrian approach will improve the conditions of trade. Although the judgment frees all Patrian producers to do business all over the world, not every market is large enough and stable enough to attract investors. In less-developed countries, the efficiencies produced by cooperative and coordinated decision making are sometimes needed to pool all the capital and technical capacity that is available. Without violating some of the competition norms of developed nations, these economies may have considerable difficulty in modernizing. Similarly, underdeveloped economies sometimes use the promise of exclusivity to encourage technology transfers; under the Bilker decree, exclusive rights are not available because Bilker is apparently required by the Patrian judgment to license any Patrian firm that asks.[85] Finally, package licenses can be good for poor economies. Sometimes, extending royalty payments beyond the terms of the relevant intellectual property rights functions as a loan: the initial cost of licensing is lowered because part of the payment is deferred to later years (when the licensee is better able to afford them). As long as there are suitable substitutes for the licensed technology, package licensing can both promote trade and enhance welfare.

Tensions such as these help to explain why the architects of the Uruguay Round did not wade too deeply into the muddy waters of competition law. Appreciating these tensions does not, however, make dispute resolution easier. In this case, developing countries may seek to intervene; consultations among participants might then enable the DSB to find a method for dealing with Bilker's business practices in a manner that optimizes world trade and research in molten metals. Should the parties fail to reach an agreement, however, it is very difficult to see how a panel would go about resolving this dispute.

The only specific guidelines provided by TRIPS are the fourteen conditions that article 31 places on compulsory licensing. Certain of these conditions were met by Patria: the case was considered on an individualized basis, the rights holder was involved, and the disposition was subject to judicial review. [TRIPS, arts. 31(a), (b), (i) and (j)]. However, the scope and duration of the judgment is quite broad and includes conditions that affect rights outside of Patria. Such a disposition is permissible, [TRIPS, arts. 31(c), (k)], and the Agreement states that grant-back conditions and coercive package licensing are practices that members may by legislation specify as abusive. [TRIPS, art. 40(2)]. It is not clear, however, whether measures to control such practices may be implemented by Patria in the absence of "judicial or administrative process" [TRIPS, art. 31(k)] evaluating evidence that the challenged practices were actually produced abusive effects.[86] A WTO panel might here look for precedents from GATT dispute settlement practice; but that practice was not uniform, and in any event might not be regarded as applicable.

B. Resolving the Tensions: Some Suggestions

That the intellectual property/competition interface would raise difficult questions was not lost on those who commented on the TRIPS Agreement at the time it went into force. In an early article, our colleague, Professor Eleanor Fox, suggested a way to deal with at least some of the problems that will arise. She noted that, at the time that the TRIPS Agreement came into force, the European Community and the United States took widely divergent positions on this issue. In effect, their laws staked out two ends of a spectrum, with the United States taking the pro-intellectual property side, and the European Community more oriented towards competition.[87] She then suggested a principle of preference whereby any antitrust enforcement action by a member state that fell within this spectrum should be considered presumptively valid under the TRIPS Agreement.

It seems to us that such an approach could run counter to the consensus that emerged from the Uruguay Round, where member states agreed to uphold minimum standards of intellectual property law, but did not make substantive decisions regarding

competition law: such disparate treatment could be interpreted to mean that in close cases, innovation policy must trump competition policy in all member states. Thus, we do not believe that a principle of deference to U.S. or European Community competition law (or something in between) should be read into the TRIPS Agreement. We do, however, think that Professor Fox offers an attractive approach for interpreting what the minimum standards of the TRIPS Agreement mean by abuse. Thus we would accept her suggestion to compare Patria's law and implementing decree with the laws of the European Community and the United States: if Patria's measures are consistent with those laws (particularly if the practice challenged by Bilker would violate the law of both jurisdictions and the remedy imposed by Patria would be consistent with both their laws), they should be upheld by a WTO panel unless expressly prohibited by the TRIPS Agreement. However, if, for instance, Patria required Bilker to issue a compulsory royalty-free license for its patented products, such an order would be inconsistent with article 31(h) of the TRIPS Agreement, regardless of U.S. or European Community law, and a challenge to the order by Xandia should be upheld by the DSU panel.[88]

Nor does Professor Fox purport to address all of the problems raised by cases such as Case III. She does not provide a method for considering measures that fall outside the EC/U.S. competition-law spectrum. Such situations are easy to imagine. The competition law of the United States and the European Community may well not be appropriate for developing countries and member states in transition to market economies. States that, prior to TRIPS, lacked intellectual property protection did not have rights that could be abused, nonmarket economies had no need for antitrust laws, and many developing countries still have not reached a stage where competition policy is of major concern. Once such countries begin to implement their obligations under the TRIPS Agreement by enacting intellectual property law, antitrust rules are likely to follow. However, it is not necessarily the case that any of the antitrust regimes extant at the time of the Uruguay Round will meet their needs. As we have noted, some countries may consider themselves better off sacrificing a little competition in order to attract investment in infrastructure. Conversely, a country that is trying to find technological opportunities for an emerging work force may be justified in being less tolerant of tie-ins that limit the growth of niche industries such as servicing. Even if competition law does not become a major item on the agenda of the WTO, we conclude that the relation between competition law and intellectual property law merits further study, possibly in connection with the review of the TRIPS Agreement that is due in five years' time. We would not expect this rethinking to take place in the course of a dispute settlement proceeding.

C. Deciding Case III

How, then, after this lengthy excursion, should a dispute panel decide whether the disposition by the Patrian court in the Bilker case is consistent with the TRIPS Agreement? Given the lack of consensus on the correct balance between antitrust and intellectual property law, and given what we said in connection with Case II about not second-guessing domestic decisions regarding fine-tuning, it is tempting to start with a presumption that Patria's decision in Bilker should be sustained. Indeed, the approach of article 31 of the TRIPS Agreement is to defer to the decisions of competent national authorities. There are problems with a presumption of deference, however. Competition cases are likely to have more of an impact on rights holders than the sorts of questions raised in connection with Case II. In contrast to fine-tuning mechanisms, the decision to hold an intellectual property right unenforceable permits wholesale copying. In Case III, for example, the judgment of the Patrian court would permit anyone wishing to enter the service business to copy Bilker's servicing protocol programs; in other cases, the decision to hold a patent right unenforceable would allow anyone to enter into competition with the patentee. Indeed, such a decision may allow a product to be sold in any country that has a worldwide exhaustion doctrine.[89] Deciding the issue simply on the basis of deference to national law therefore seems inappropriate.

One approach to evaluating the validity of the decree would be for the dispute panel to examine the extent to which the Patrian court inquired into the facts of the case and then to examine whether the court analyzed these facts in a manner that would plausibly identify practices abusive to its economy. If the court has acted on the sort of facts that, say, the U.S. Justice Department uses when it proposes a consent decree, then, subject to two caveats, its actions should be considered valid. The first caveat concerns the impact of a decree on countries of very different economic development from the one that issued the decree. . . . [T]he panel should supplement Patria's fact-finding with information about the effect of the decree on different economies. Deference would be accorded to Patria's decision only to the extent that its decree affects the economies of states similarly situated to Patria.

The second caveat concerns Patria's per se rules regarding package licensing and tie-ins. It is not clear that the TRIPS Agreement tolerates broad orders based on per se views of particular licensing practices, that is, practices regarded as so bad (such as price-fixing, for instance) that inquiry into the reason for the practice is neither required nor permitted. Per se judgments are not necessarily alien to WTO dispute settlement: Article 3.8 of the Understanding on Dispute Settlement states that when there is an infringement by a member state of the obligations assumed under a covered agreement, the action is considered prima facie to constitute nullification or impairment. But Case III involves only a charge of violation by a Xandian company of the law of Patria, and a response that the challenged conduct is protected by the TRIPS Agreement or that the remedy imposed by Patria exceeds what is permissible under that Agreement.

It seems to us that before pronouncing on Case III, the panel should afford both sides the opportunity to present facts and economic analysis. If this is sound, Bilker ought to have the opportunity to defend its practices in the Patrian court, and to contend to that court that the TRIPS Agreement protects its practices or limits the remedies that may be imposed by Patria. If Bilker has not previously been given such opportunity, the panel should rule that Patria has not complied with the TRIPS Agreement, and should recommend that the case be reopened in that country.

NOTES AND QUESTIONS

1. **Judicial analysis of competition law**. Dreyfuss and Lowenfeld conclude that "the relation between competition law and intellectual property law merits further study, [but we] would not expect this rethinking to take place in the course of a dispute settlement proceeding." Why not? Patent and copyright misuse doctrines were developed by U.S. courts to mediate the abuse of intellectual property rights. Aside from the language of Article 3(2) of the DSU—and is that more of a constraint here than elsewhere—are there institutional considerations that might make it inappropriate for WTO panels to engage in "lawmaking" in the way that we might expect of domestic courts?

2. **(Non-intellectual property) sources of guidance.** Where should a panel look where the topic before them has only rarely (if ever) been addressed by the sources that we considered in our analysis of Case I? Is the extent of reference to national competition approaches suggested by Professor Fox appropriate? Should panels be able to look to broader international law principles (for example, in bilateral or multilateral competition law agreements)? By doing so, are panels exceeding their jurisdiction? Remember that competition law is not covered by the GATT. If the panel could apply only "WTO law", what does that say about the value of the panels as a mechanism of international relations? Is it possible for them to decide intellectual property disputes under TRIPS without looking beyond TRIPS? What are the consequences of broadening the perspective of panel members? What are the consequences of confining their perspective? How would you respond to an argument by Patria that it was complying with provisions of a multinational or bilateral competition law agreement? What would be the appropriate forum to litigate an issue if provisions of other agreements were raised by the parties? The International Court of Justice? Could those fora address WTO-related issues? *See* DSU, art. 23. *Compare* Trachtman, *supra*, at 342-44 (discussing scope of reference to non-WTO international law), *with* David Palmeter and Petros C. Mavroidis, *The WTO Legal System: Sources of Law*, 92 AM. J. INT'L L. 398, 399 (1998) and Thomas J. Schoenbaum, *WTO Dispute Settlement: Praise and Suggestions for Reform*, 47 INT'L & COMP. L.Q. 647, 653 (1998). What if two or more countries established a supranational panel to adjudicate competition law issues? *Cf.* BRIAN F. HAVEL, IN SEARCH OF OPEN SKIES (1997) (proposing such a body for international airline competition relations). Should the WTO panel stay the case before it?

3. **Revisiting deference.** Why are Dreyfuss and Lowenfeld apparently less reluctant to show deference to Patria here? Can their reasoning be reconciled with the approach to deference shown in Cases I and II? Does a less deferential attitude to Patria's activity trouble you where the issue before the panel was one on which there was minimal guidance in TRIPS?

4. **Magill**. Could the order of the European Commission in *Magill*, *supra* Ch. VI, be challenged by Ireland (assuming that it wished to do so) before the WTO? How would the Commission's order, and the decision of the European Court of Justice upholding it, fare under the test proposed by Professor Fox? Under the approach proposed by Dreyfuss and Lowenfeld? (What additional information would you need to know?). How would the legislation enacted by the U.K. parliament (section 176 of the UK Broadcasting Act 1990) to create the compulsory licence of copyrighted television listings fare under the same analysis? Should it matter whether the remedial measure is found in broadcasting legislation, administrative competition law sanctions, or a judicial decree?

DREYFUSS AND LOWENFELD, CASE IV:
THE APPELLATE PROCESS

One of the major innovations in the Uruguay Round was agreement that decisions of dispute panels were to be treated like judgments–that is, that they could not be blocked by the losing party or even by a majority vote of the membership of the WTO. Once that decision had been taken, it became necessary to provide for some type of review, both to correct errors that might be made by an ad hoc panel and to give participants dissatisfied with the outcome a second chance to be heard. The solution, in keeping with the preference for the judicial over the diplomatic model for dispute settlement, was creation of a standing Appellate Body, made up of seven persons drawn from different constituencies included in the WTO.[90] The Appellate Body is supposed to complete its work in sixty days from the date of the appeal (ninety days for exceptionally difficult cases), and appeals are to be "limited to issues of law covered in the panel report and legal interpretations developed by the panel." [DSU, arts. 17.7, 17.6].

Distinguishing legal from factual questions for purposes of jurisdiction is, of course, a common problem in all legal systems. The fact/law distinction is particularly troublesome in the context of patent controversies, where resolution of issues of novelty, prior art, and scope of inventions is dependent both on determinations of fact and on interpretation of imprecise legal standards. For our purposes, however, we illustrate the problem in an apparently easier context – concerning the right to register a trademark.

Case IV

> Koka Kola, Ltd., a Xandian company, has registered its mark, KOKA KOLA, for carbonated beverages (soda pop) in Xandia and in most of the world. As a result of Koka Kola's sponsorship of every Olympic Games since World War II, it had every reason to believe that the mark was familiar everywhere. Nonetheless, when it sought registration in Patria, its application was denied, on the ground that the same mark had recently been registered by a Patrian who was in the process of starting a company to manufacture and distribute his version of Koka Kola soda pop. When Koka Kola was unsuccessful in having the other registration canceled, it persuaded the government of Xandia to bring a complaint in the WTO.
>
> According to Xandia's complaint, Koka Kola is a well-known mark for soda pop and Patria's refusal to register it violated article 16(2) of the TRIPS Agreement. A dispute panel was convened. Xandia submitted consumer surveys showing that substantial numbers of Patrian soda pop consumers recognized the mark and that an even higher percentage of consumers in larger markets recognized it. Upon consideration of these surveys and after seeing evidence that since 1980, all telecasts of the Olympic Games could be received on television sets in Patria, the panel determined that the mark was well-enough-known within the meaning of the TRIPS Agreement to qualify for the special protection offered by TRIPS article 16(2). Patria appeals to the Appellate Body, pursuant to article 16 of the DSU.

A. Jurisdiction to Hear the Appeal: The Fact/Law Distinction

Xandia might well contend that there is only one issue in this case— whether the Koka Kola mark for soda pop is well-known—and that any lay person would say that this is a question of fact. Thus, Xandia could argue that there is no basis for reviewing the panel report in the Appellate Body. Or, more subtly, Xandia might argue that given the relationship between the resolution of the appeal and the application of article 16(2) of the TRIPS Agreement, the issue sought to be put before the Appellate Body is a mixed question of law and fact, and that resolution of mixed questions is also beyond the mandate of the Appellate Body.

It is important to recognize in this context that the fact/law distinction is jurisdictional. Whether the Appellate Body may hear the appeal depends on an interpretation of the Understanding on Dispute Settlement and the covered Agreement in question, and cannot be decided according to the law of any particular member state. Given the reasons for creation of the Appellate Body and the limited time available for completion of its assignment, our view is that respondent parties in the appeal process—typically (as in Case IV) the party that prevailed before the panel—should be discouraged from raising challenges to the jurisdiction of the Appellate Body; further, if such a challenge is raised, the Appellate Body should be very reluctant to dismiss an appeal over an issue of jurisdiction. Findings of particular facts made by the panel can be accepted. For instance, in Case IV the Appellate Body need not make an independent inquiry into the broadcast history of the Olympic Games or their reception in Patria. It can satisfy itself that the information submitted to the Panel was reliable, or, if differing information was submitted, that the panel made a rational choice as to which version to accept. But as to the ultimate issue—whether Patria complied with the criterion in the TRIPS Agreement regarding knowledge of the mark in the relevant sector of the public—the Appellate Body should make its own decision, free, we would urge, from any debate about whether the decision is based on "fact" or on "law."

[In Case IV] . . ., if the Appellate Body declined to take jurisdiction of the appeal, it would, in effect, exclude itself from participating in the elucidation of one of the most important provisions in the TRIPS Agreement—the provision that enables producers to develop and maintain a worldwide marketing strategy without fear of "trademark pirates" to hold them up. If a panel can address the issue, it must be that the Appellate Body can and should do so as well.

It is instructive in this context to contrast the TRIPS Agreement with the Agreement on Dumping and Antidumping Measures,[91] also concluded as an obligatory part of the Uruguay Round package [and subject to WTO dispute settlement review. Under article 17.6 of the Antidumping Agreement, however, (i) if the panel finds that the establishment of the facts by the national authority of the importing country that has imposed antidumping duties on the product of another country was proper, and the evaluation was unbiased and objective, then that evaluation shall not be overturned by the panel even if it would have reached a different conclusion, and (ii) is a relevant provision of the Agreement admits of more than one permissible interpretation, the panel shall find the authorities' measure to be in conformity with the Agreement if it rests upon one of those permissible interpretations.]

This provision was inserted upon the insistence of the United States, which feared that international panels unsympathetic to the provisions on dumping generally and in particular to the hard-to-confirm findings on causation of injury might hold antidumping measures ordered by the U.S. Department of Commerce and the U.S. International Trade Commission to be inconsistent with the international understanding.[92] The last-minute solution, for what the United States delegates said was a "deal breaker," was to accord an extra degree of deference to national authorities—for dumping cases only. If Patria considers that a panel convened to review its antidumping measure has exceeded the limitations of article 17.6, such a contention could, it seems clear, be made the subject of an appeal

to the Appellate Body. The Appellate Body would not be authorized to examine the underlying issues of price comparison and causation of injury (the "fact issues"), but would be limited to determining whether or not the panel had exceeded the limitations imposed by article 17.6.

No provision comparable to article 17.6 of the Antidumping Agreement appears in the TRIPS Agreement,[93] and we believe that none should be read into it either by panels or by the Appellate Body, in the guise of making rulings on "jurisdiction" or distinguishing "fact" from "law." The ultimate issue—whether denominated "fact," "law," or "mixed,"—should be considered (if a party so desires) at two levels, first by the ad hoc panel that assembles the record, hears the parties, and makes an initial determination, and second by the standing Appellate Body, that considers, for instance, how the Koka Kola case fits in with other intellectual property cases and with the jurisprudence of the GATT/WTO system generally.

B. The Role of the Appellate Body

The problems in Case IV—which seemed to be the easy case—do not quite disappear even after the decision is made to consider the ultimate issue one of law. TRIPS article 16(2) calls for inquiry into "the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark." Here, then, are several sub-issues: How much knowledge is necessary for the mark to be considered well known: must a majority of the relevant public recognize it, or is a substantial minority enough? What is the relevant sector: soda pop drinkers or all beverage consumers? What is considered promotion of the trademark in the member state: is Koka Kola considered to have promoted the mark in Patria by reason of buying air time on an event that could be picked up on television receivers in Patria, or must it have advertised on actual local broadcasts? Even after it is determined that the ultimate issue—the strength of the mark—is a question of law, the issue of characterizing these penultimate questions remains.

Once again, the line between fact and law can only be drawn by reference to the underlying principles to which the adjudicatory system is dedicated, that is, by considering why line drawing is needed under the circumstances. For example, in domestic intellectual property cases in the United States, controversies, such as over the strength of a trademark, that require resolution of a series of penultimate questions are often handled by considering those questions to be ones of fact and the ultimate question one of law. In this way, the opportunity to appeal the outcome of the controversy is preserved, yet the litigants' respect for the trial court as the primary forum for dispute resolution is maintained.[94]

Such allocation of authority may, however, not be generally suitable to disputes under the TRIPS Agreement, where the policy interests can be very different. Dispute panels are chosen in a manner designed to promote considerable respect from the parties. Panel members are selected by the Director General of the WTO, in consultation with the Chairman and counsel of the DSB, from a roster of persons who have served in their own governments, often as judges, or in other capacities in the GATT. [DSU, art. 8]. Some are academic experts in the issues raised by the dispute. However, because the panels are chosen for a particular case, there is no assurance that members of a panel will have the same commitment to long-term consistency that is expected from the members of the Appellate Body.[95] Accordingly, one might conclude that less deference is owed to panel decisions than is accorded to court decisions in the United States.

On the other hand, at least one, and possibly all members of a panel in a dispute focused on the TRIPS Agreement may be expected to be experts in intellectual property, whereas it is highly unlikely that any member of the Appellate Body possesses comparable knowledge or experience.[96] Thus, it may well be desirable for the Appellate Body to give greater deference to legal decisions of a panel in intellectual property disputes than it would in disputes about, say, export subsidies or import safeguards—and also more deference than a national appellate court would give to a trial court. Indeed, the role of the Appellate Body, as we see it, is not primarily to articulate intellectual property norms in the international economy, but to oversee the work of dispute panels with an eye to the general principles of open markets and nondiscrimination embodied in the GATT/WTO system. In fact, as noted earlier, it is the Council for TRIPS that is charged with monitoring the operation of the Agreement and cooperating with WIPO in setting international norms. The Appellate Body, then, is not the only, or even necessarily the best, source of authoritative articulation of intellectual property norms.

We do suggest, however, that where system-wide rules are desirable, the provision in the DSU concerning "issues of law" should receive broad scope when applied to the TRIPS Agreement; where it is permissible for members to maintain legal regimes that differ from one another, the need for uniform interpretation of the TRIPS Agreement by the Appellate Body is less compelling, and it is "questions of fact" that should be interpreted generously.

As the TRIPS Agreement is written, members have considerable discretion to maintain their own intellectual property regimes. Article 1(1) provides:

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

Thus, where the panel has deferred to the respondent state's national authorities, the inclination (not to say presumption) of the Appellate Body ought to be to defer as well. In contrast, a contention by Patria that a panel has acted inconsistently with article 1 in ruling against a practice that does not clearly violate the TRIPS Agreement should be heard and determined by the Appellate Body. In such cases, the proper role for the Appellate Body is to monitor whether panels have been too interventionist, a question of judgment that does not fit easily into the "law" or "fact" classification.

One might be tempted to conclude from this discussion that the Appellate Body needs wide authority only in disputes such as those illustrated by Case I, where the question was what the minimum standards require. A review of our other cases demonstrates that this is only sometimes true. It may be true for cases in the category of Case II, where the differing circumstances of member states require that they be allowed to make differing adjustments between the rights of innovation producers and innovation users. The application of the doctrine of equivalents in patent law, for example, should probably be left to interpretation by each member state, subject to intervention by the WTO only upon a showing of discrimination. But the fact that member states have discretion under the TRIPS Agreement to implement their own legal regimes is not necessarily conclusive of the proper role of the WTO panel or the Appellate Body. For instance, Case III, the antitrust case, raised the question of the permissible extraterritorial effect of decisions of a national authority. On that issue, as in Case IV, neither the panel nor the Appellate Authority should defer to the national authority. It is up to the international authority to step in, to declare, for example, whether it is permissible for member states to order worldwide relief for antitrust violations or intellectual property misuse, and if so, whether they may do so on the basis of per se rules, without permitting justification through market-by-market analysis. Furthermore, if the Appellate Body determines that per se rules are objectionable, it will need to have a role in deciding such fact-sounding issues as when an entity occupies a "dominant position," when a technology has suitable substitutes, and how to define separate markets.

In the end, we can offer only discussion of the problem, not hard rules. The Appellate Body is not a Supreme Court, but part of a process not yet tested, which will include the evolution of norm-setting in WIPO, the activity of the Council on TRIPS, and the progress made among the parties in developing a shared understanding of the not always consistent values of intellectual property and competition.

NOTES AND QUESTIONS

1. **Composition of panels and the Appellate Body.** The creation of the Appellate Body was intended not only as a check on panel decisions but also, by virtue of its standing nature, to bring some consistency and uniformity to the development of WTO law. At present, the three members of the Appellate Body who hear a case have been chosen without regard for whether a member is from a country appearing before the Body. Thus American nationals on the Appellate Body have sat on cases involving the United States. This contrast with the panel stage of the proceedings, where nationals of participating countries generally do not sit. *See* DSU, art.8(3) (nationals of parties should not be appointed to a panel unless the parties agree); *cf.* DSU, art. 8(10) (allowing developing countries litigating against developed country to request that at least one of the panelists before whom they appear will be from a developing country). What effect might the effective recusal of nationals on panels have on the development of WTO law? The EU has proposed that the panel composition be determined like the Appellate Body. Would you support such a change? *See* The WTO Appellate Body: The First Four Years, 1 J. WORLD INTELL. PROP. 425, 428 (1998) (comments of Edwin Vermulst). Or should the practices of the Appellate Body composition be conformed to those used in composing the members of the panel? *See id.* at 431 (comments of Guiguo Wang). One commentator has suggested that the question of balance transcends nationality, and that the panels evince a distinctly Western cultural approach to law. *See id.* at 431 (comments of Jacques Bourgeois). How might that be avoided? Can it be avoided?

The EU has also proposed that the ad hoc panels be replaced by a standing body, not unlike the Appellate Body, comprised of between 15-24 members. On the basis of a rotation mechanism, the Panel Body would itself form a chamber of three to deal with each new case as it arose. *See* Kim Van der Borght, *The Review of the WTO Understanding on Dispute Settlement: Some Reflections on the Current Debate*, 14 AM. U. INT'L L. REV. 1223, 1240 (1999) (quoting EU proposal). What are the advantages of each approach? *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 449 (1998) (comments of Prof. Brigitte Stern); *id.* at 460 (comments of John Kingery) (describing such a change as a "major step" that would "change the nature of dispute settlement quite a bit"); *id.* at 468-469 (comments of Geoffrey Hartwell). Jayashree Watal has commented that "the WTO is so political that it is not possible for the Appellate Body . . . to be really too activist . . . without facing criticism from the members. In this sense, the WTO is very different from any other international organization in the field of public international law." The WTO Appellate Body: The First Four Years, 1 J. WORLD INTELL. PROP. 425, 436 (1998). In what way is the WTO "so political"? Would a change to a standing body of panelists reduce or increase the political nature of the process?

2. **Remand authority**. Dreyfuss and Lowenfeld suggested above that in order to decide Case III, the panel might have to supplement Patria's fact-finding with information about the effect of the decree on different economies. If the panel failed to engage in that fact-finding, and the Appellate Body finds those facts necessary as a matter of law to decide whether the Patrian court's order complies with TRIPS, what should the Appellate Body do? The DSU failed to provide the Appellate Body with the right to remand the case to the panel. *See* David Palmeter, *National Sovereignty*, at 85. Absent such a right, what options does the Appellate Body have? *See* United States–Import Prohibition of Certain Shrimp and Shrimp Products, AB-1998-4, WT/DS58/AB/R (98-3899) ¶ 123 (Appellate Body, Oct. 12, 1998). Can the Appellate Body simply declare that it is remanding a case even absent express authority in the DSU? If you were a member of the Appellate Body would you vote to create a remand power judicially? What other procedural or institutional changes would be required for a remand procedure to work? *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 454 (comments of Thomas Cottier).

3. **The fact/law distinction**. Does the Dreyfuss/Lowenfeld suggestion on how to interpret the law/fact distinction—with an eye to the proper role of the Appellate Body—contain a substantive bias? Is it one that is appropriate? In what way (if any) are the circumstances in which, or reasons for which, Dreyfuss and Lowenfeld might encourage the Appellate Body to defer to the panel the same as those that they invoked in support of panel deference to member countries?

In *United States-India*, India sought to make use of the fact/law distinction before the panel (and the Appellate Body) but in a much more traditional manner, quite different from the use of that distinction envisaged by Dreyfuss and Lowenfeld. India sought to classify Indian law as a question of fact in order to oblige the United States to prove Indian law as part of its case. *Cf.* Walton v. Arabian Am. Oil Co., 233 F.2d 541 (2d Cir. 1956) (traditional approach to proving foreign law in private litigation in U.S. courts). Are India's arguments persuasive? In what ways could the panel have "sought guidance from India on matters relating to the interpretation of Indian law" as India alternatively suggested? *See* Appellate Body Report, ¶ 64.

4. **Deciding Case IV.** If the Appellate Body were to decide Case IV, how would it determine the meaning of "well-known mark" in Article 16 of TRIPS? To what extent should a panel determining Patria's compliance with Article 16 look to the resolution on the protection of well known marks adopted by the joint meeting of the General Assembly of WIPO and the Assembly of the Paris Union in September 1999? (At the September 1999 Assembly, Asian and African nations insisted on the removal of references in the preamble to TRIPS, arguing that such a reference may cause WTO dispute panels to interpret the recommendation as binding.)

5. **Trademark complaints before the WTO.** Only one case has thus far been fully pursued with the WTO regarding trademark law. (The United States has just filed another trademark-based complaint against the EU challenging the EU system of geographical designations of origin. *See supra* Ch. V.). In that sole case, the complaint by the United States against Indonesia was largely obscured by other non-TRIPS claims under other GATT agreements. *See* United States v. Indonesia, WT/DS59, IP/D/6 (98-2505) (Panel Report, July 2, 1998). The United States claimed that the Indonesian National Car Programme (the INCP) violated articles 3, 65(5) and 20 of TRIPS because it allegedly discriminated against nationals of other WTO countries with regard to the acquisition and maintenance of trademarks. The INCP grants various tax and other benefits to cars that are part of the program. To qualify for the program, however, the trademark used with the car must be owned by an Indonesian company (or an Indonesian joint venture including foreign companies as partners). What would be the strongest arguments in support of the United States' claims? *See* Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, J. INT'L ECON. L. 347, 370-74 (1999) (summarizing the extremely lengthy arguments and panel report). Why did the United States include a claim based upon Article 3 of TRIPS?

DREYFUSS AND LOWENFELD, CASE V: ENFORCEMENT

Two key enforcement issues are likely to confront the WTO in the intellectual property area. The first concerns enforcement by member states of the intellectual property rights that they have recognized, at least on paper. The second issue, not limited to intellectual property controversies, concerns enforcement of member states' obligations, once these have been determined by the dispute settlement process. Our last case directly raises the first issue, and could well raise the second one also.

Case V

This case is a continuation of Case IV. Xandia, having taken up the case of Koka Kola, has prevailed before a panel established under the DSU. The panel's decision has been upheld by the Appellate Body, and the Report of the Appellate Body has been adopted by the DSB. According to article 21 of the Understanding on Dispute Settlement, Patria is supposed to inform a meeting of the DSB within thirty days of its intention in respect of implementation of the recommendations and rulings of the DSB. In this case, the ruling was that Koka Kola's trademark was widely recognized in Patria, and the recommendation was that the relevant Patrian authority cancel the registration of the local rival and approve the registration of the mark by the multinational company based in Xandia. If necessary, the Patrian authority was to seek an injunction or comparable remedy against infringement. The ruling was upheld by the Appellate Body.

Patria, however, states that it is not in a position to comply with the recommendation and ruling, because its domestic law does not permit the measures recommended by the panel. Alternatively, Patria contends that its prosecutors have considerable discretion in

allocating their resources, and putting a stop to trademark infringement is not a high priority.

A. Competing Priorities

In addressing Patria's defense of lack of resources or competing priorities, a WTO panel or the Appellate Body will need to come to grips with an interesting ambivalence reflected in article 41, the General Obligations article of the TRIPS Agreement. Paragraph 1 of article 41 states that "[m]embers *shall ensure* that enforcement procedures . . . are available under their law so as to permit effective action against any act of infringement of intellectual property rights . . . including expeditious remedies . . . and remedies which constitute a deterrent to further infringements." Paragraph 5 of the same article, however, states that "[n]othing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general."

If Patria's concern is really the allocation of limited resources, the problem may be addressed by a recommendation of the Panel that the period of compliance be stretched out—for instance until completion of the next session of the legislature—and (if Patria is a developing country) that financial and technical resources be made available to Patria under article 67 of the TRIPS Agreement.

B. Patterns of Nonenforcement

A pattern of nonenforcement by Patria, coupled with an allegation by Xandia that Patria had the resources to carry out its obligations, would be difficult to establish, and certainly could not be established in the first case. Possibly, Xandia could show that repeated efforts to bring infringement proceedings in Patria had led to no effective results. An assertion by Xandia that bringing such proceedings would be fruitless would, we expect, not be sufficient to lead to a determination that Patria was in violation of article 41(1). But if a pattern of non-enforcement by Patria of its laws were established, we believe that a panel could find a violation, and if no improvement were apparent, the controversy could be moved into the compliance stage, as discussed below.[97]

We think that the government of Xandia should hesitate before bringing Case V before the WTO dispute system. A better way to encourage enforcement of intellectual property rights—whether before or after litigation, as illustrated by the preceding cases—may be outside of the dispute resolution system. In many instances, we expect, intellectual property holders could serve their own cause by helping infringers find ways to utilize the investment they have sunk into infringing activities. In Case V, for example, Koka Kola may gain more by licensing to the so-called Patrian "trademark pirate" than by fighting him through to the end under the WTO system. With licensing, his plant would be utilized and Patrian workers would be employed; yet, Koka Kola could protect its marks by regulating the output for quality and quantity. If the relationship became valuable enough to the licensee, the impulse to cheat—for instance by exporting outside the territory covered by the license—might be reduced more than it could ever be controlled by a Patrian police force.[98]

C. Enforcing the Decisions of the Panel or Appellate Body

In the past, that is, under the GATT prior to comp letion of the Uruguay Round, Patria might have been able to block adoption of the panel report; even if it did not do so, it might have been able to fend off "suspension of equivalent concessions" by Xandia, because such a step required approval of a majority of the Contracting Parties, and retaliation was generally disfavored. The architects of the [DSU] sought to put teeth into the system, with an elaborate (but as yet untried) set of steps applicable if the preferred dispute settlement process breaks down.

First, if Patria cannot comply immediately, it will have a reasonable period of time to do so. Determination of what is a "reasonable period" is subject to approval by the DSB or to an agreement with Xandia within forty-five days of adoption of the Report, or—if no agreement is reached—to binding arbitration. The arbitration is to be held within ninety days of issuance of the Report and is limited to the issue of the "reasonable period" for compliance.[99]

Next, the DSU makes provision for disagreement between the parties over whether a corrective measure proposed by the respondent party is consistent with the GATT or the covered agreement. That question is also to be referred to impartial decision making—not by the arbitrator but by a panel, if possible the panel that heard the original dispute. [DSU, art. 21.5] It is hard to imagine how there could be disagreement over implementing the ruling in the Koka Kola case, but in other cases, including other intellectual property cases, a proposed corrective measure might well give rise to continuing controversy.[100]

Third, if all else fails, two more possibilities are set out in the DSU. If Patria fails within the "reasonable period" to carry out the recommendation to terminate or modify the practice found to be inconsistent with the Agreement, it may negotiate with Xandia for mutually acceptable compensation. The term is not defined in the DSU, but it seems to mean some offer by Patria of trade interest to Xandia.[101] If no agreement on compensation is reached within twenty days of the expiration of the "reasonable period," Xandia, the prevailing party, may, upon authorization of the DSB, retaliate against Patria by suspending the application to Patria (this time on a discriminatory basis) of concessions or other obligations. [DSU, art. 22.2]. Suspension of a concession or other obligation is subject to authorization by the DSB, but article 22.6 of the Understanding on Dispute Settlement provides that the DSB shall grant the authorization within thirty days of the expiry of the "reasonable period," unless it decides by consensus to reject the request.[102]

What kind of suspension might be authorized? Considering that retaliation is generally disfavored in the GATT/WTO system—because it means that not one but two distortions to normal trade will prevail—the Understanding on Dispute Settlement contains surprisingly detailed provisions in answer to this question. [DSU arts. 22.3-6, 22.8] The general principle is that the complaining party should first seek to suspend concessions or other obligations with respect to the same sector(s) as that in which the panel or Appellate Body has found a violation. If that is not practicable, the complaining party may seek to suspend concessions or other obligations in other sectors under the same agreement—in our case the TRIPS Agreement. If that is still not practicable, the complaining party may suspend concessions or other obligations under another covered agreement. Retaliation is not punishment. Article 22.4 of the DSU states clearly what has been understood in the GATT since its origins: "The level of the suspension of concessions or other obligations authorized by the DSB shall be equivalent to the level of nullification or impairment."

Should Xandia now propose to refuse to recognize trademarks owned by nationals and companies of Patria? Or trademarks on soft drinks? On all food products, or all products sold in grocery stores? We worry about all proposals of this kind. Any form of trade retaliation brings with it a substantial measure of injustice, because it nearly always affects persons that have had no prior involvement in the controversy. We suspect that the adverse effects of retaliation—trade distortion and injustice—could be more severe if implemented in a tit-for-tat last act in an intellectual property dispute than in the traditional fields of exchange of goods.

For example, consider a Xandian factory tooled to manufacture high-quality merchandise under license from a Patrian company. The factory may have been very expensive to build, and it may well employ a large and expensive workforce. If Xandia retaliates by refusing to recognize the Patrian company's trademark, it may be that the price of the output will have to be lowered because of confusing use of the mark in Xandia. At that point, it may no longer be profitable to keep the factory in operation. Retaliation will, in short, have idled an expensive assembly line, hurting both Xandian enterprises and Xandian workers, with some loss also to the Patrian firm whose royalty income is reduced, but with no gain for the original injured party, Koka Kola.

Perhaps more significant, retaliation of this kind could have an adverse effect on consumers and on the market place. Trademark law, after all, is partly geared to consumer protection. Unambiguous signals denoting particular goods allow consumers to make informed purchasing choices. Without effective signals, search costs increase. When they do, the unseen hand of the marketplace

begins to allocate resources inefficiently. Even after the retaliation is withdrawn, these effects could persist. Having lost the ability to control their marks and send clear messages to their customers, producers will have difficulty notifying consumers that the meaning of the mark has been restored.

An alternative might be for Xandia to announce that its retaliation would take the form of a refusal to register new trademarks originating in Patria. Continuing to enforce old marks would preserve the reliance interests of those who owned or licensed marks in Xandia at the time the retaliation took effect. However, the refusal to register new marks might also lead to confusion among consumers and distortions of the market. Xandian consumers traveling abroad or receiving signals on television or the internet would be exposed to the way that marks are used outside Xandia, and consumers outside Xandia might well be exposed to the unauthorized usages permitted inside Xandia. Indeed, the whole problem of Case IV arose because of the significance of trans-border exposure, recognized in article 16(2) of the TRIPS Agreement. Allowing Xandia to refuse to recognize marks that are new to Xandia will not, therefore, contain the possibility of confusion in a meaningful way. On the one hand, this means that despite the apparently limited nature of the retaliation, it could have a large enough impact on Patrian business to inspire Patria to conform its behavior to the requirements of the TRIPS Agreement. On the other hand, however, the impact of even this narrow action could be unacceptably high, for there is no way to prevent dislocations in other markets. As in Case III, administration of the TRIPS Agreement needs to be sensitive to extraterritorial effects of intraterritorial actions.

Given that any retaliation focusing on trademarks is unattractive, the next-favored retaliatory measure would be cross-agreement, that is, still within the field of intellectual property governed by the TRIPS Agreement, but addressed to patents or copyrights, rather than to trademarks. Refusal to enforce or register patents and copyrights originating in Patria, however, would raise many of the same issues of expropriation that are raised by canceling or refusing to register trademarks. Although the danger of confusing consumers would not be present, the problem of frustrating the reliance interests of rights holders and licensees would exist at least equally. Moreover, there might well be an extraterritorial effect if products could be exported from Xandia into countries that recognize a doctrine of worldwide exhaustion of copyright and patent rights.

It may be that cross-sectoral retaliation would be the most attractive alternative for Xandia, as in the action taken in 1988 by the United States against Brazil under the famous Section 301, when the Reagan administration imposed 100% tariffs on imports of microwave ovens, quality writing paper, and a number of other products from Brazil, in retaliation for that country's refusal to grant patent protection for pharmaceutical products.[103]

The difficulty in fashioning an appropriate form of retaliation is not a reason to disparage either the TRIPS Agreement or the Understanding on Dispute Settlement. The whole thrust of the WTO dispute settlement regime is that retaliation should never take place. Retaliation should be considered a pain to Patria and Xandia so severe that both member states would be induced to reach agreement before it came to this last of the seven steps provided in the DSU. That the reciprocal pain comes more quickly in the intellectual property area may be attributable to the fact that in contrast to goods, which can be only in one place at one time, intellectual property, being intangible, travels in many directions and can come to rest in many places at once. The moral we draw is that the initial steps in the dispute settlement process, that is the work of the panels and the Appellate Body, should be carried on with great care in the intellectual property area—terra incognita for the GATT/WTO system—with attention not only to the outcome of a given case but to the persuasiveness of the reasoning and explanations, for the parties and for the wider interests at stake.

. . .

NOTES AND QUESTIONS

1. **The nature of TRIPS' effective enforcement provisions.** Most of the early complaints focused on violations of substantive, relatively delineated TRIPS obligations, but as the system matures one might expect an increasing number of complaints to focus on measures for the enforcement of intellectual property rights. This would reflect a parallel progression in the focus of the United States Trade Representative's efforts under Special 301 against, for example, the People's Republic of China. And it would exploit one of the TRIPS Agreement's other novel contributions to international intellectual property law, namely, attention to measures provided by states to ensure the effective enforcement of intellectual property rights. *See generally* J.H. Reichman, *Enforcing The Enforcement Procedures of the TRIPS Agreement*, 37 VA. J. INT'L L. 335 (1997); *see infra* Ch. IX. But the language used by the TRIPS Agreement to define members' obligations relating to enforcement is that of broad principles or standards rather than carefully delineated rules. One would therefore expect these standards to prove less fertile ground for complainants in a system where the text of the DSU admonishes against panel activism and explicitly allows member states discretion as to how to implement international obligations in national law. Yet, complaints have already been filed, and resolved, addressing enforcement measures. *See* Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, J. INT'L ECON. L. 347, 381 (1999) (discussing proceedings brought against Sweden by the United States for failure to make provisional measures available in civil actions involving intellectual property rights); *see also id.* at 381 (discussing pending consultations between the United States and Denmark regarding the latter's compliance with Article 50). Why might the drafters have used broader, more indeterminate language in the Agreement (especially when addressing enforcement of rights)? What advantages might accrue from the use of more vague language? How might that affect the way that dispute settlement panels should interpret such language? *See* Trachtman, *supra*, at 346-347. Trachtman has suggested that the "decision between rules and standards is not a decision between more international law and less international law. While rules may be developed by tribunals, the decision is often an institutional choice between adjudicators and legislators. This observation depends upon the perception that tribunals applying standards legislate, even when they purport not to do so." *Id.* Are you persuaded by this argument? What does it mean for who controls the future direction of international intellectual property law? Why might you prefer adjudicators over legislators, or vice-versa?

2. **Article 41(5).** In Case V, the DSB recommendation was that the relevant "Patrian authority cancel the registration of the local rival and approve the registration of the mark by the multinational company based in Xandia. If necessary, the Patrian authority was to seek an injunction or comparable remedy against infringement." Which of Patria's responses–inconsistent domestic law, or prosecutorial discretion–is most persuasive, and why? Which, if either, implicates the allocation of limited resources such as to trigger reliance upon Article 41(5)?

3. **Responsibility for devising remedial measures.** In the *United States-India* case, the United States tendered to the panel a suggested form by which India should comply with its obligations. But the panel declined to set out in any great detail the means by which India should bring itself into compliance with TRIPS. In what ways is a detailed recommendation of remedies inconsistent with the philosophy underlying the TRIPS Agreement? *See* TRIPS, art. 1(1); *cf.* DSU, art. 19.

4. **Effect of settlement.** What would have been the effect of a settlement between Xandia and Patria regarding the allocation of a more limited enforcement than Xandia would regard as ideal? *See* DSU, art. 3(6)(requiring notification). Are settlements to be encouraged? Do settlements have any disadvantages? *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 462-67 (1998) (discussing different arguments).

5. **Scope of remedy.** After the panel report had been issued in *The United States* v. *India* (but before the Appellate Body upheld the panel's report) the EU filed an identical complaint to that filed (and successfully prosecuted) by the United States. *See* EU v. India, IP/D/7. The EU made that filing because remedies under the DSU are available only to WTO members acting with the authorization of the Dispute Settlement Body (which in turn requires panel and Appellate Body reports to act). Does this make sense? Should such apparently duplicative filings be encouraged? Should they be barred? (India had argued that the EU had lost the right to submit its own case to the WTO.) More fundamentally, are these filings duplicative? What procedural devices that you have seen in other adjudicative models might be considered to eliminate or reduce duplication? *See* DSU, arts. 9-10. To what extent are these devices inappropriate because of the different character and purpose of WTO proceedings? *See* Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement*

Practice Relating to the TRIPS Agreement, J. INT'L ECON. L. 347, 357-58 (1999) (discussing conduct of EU/India proceeding).

6. **Private party losses.** The panel in *United States* v. *India* suggested that, although India had discretion under Article 1(1) of TRIPS as to the means of implementing its obligations, it should take into account the interests of persons who would have filed patent applications since 1994 had India offered an appropriate (TRIPS-compliant) mechanism for doing so. *See* United States v. India, Panel Report, WT/DS50/R, ¶¶ 8.2, 7.66. *Compare* Notification by Pakistan to the Dispute Settlement Body, IP/N/1/PAK1 (March 5, 1997) (providing details of ordinance issued by Pakistan to settle same dispute with the United States). But an intellectual property owner cannot bring an action against a member state for losses sustained as a result of the failure of that member state to implement its TRIPS obligations. In contrast, under EU law, private citizens are entitled to damages from member states that fail timely to implement EU directives. *See* Francovich v. Italy, [1993] 2 CMLR 66 (E.C.J. 1991); *see also* R v. Secretary of State for Transport, ex parte Factortame, [1990] 3 CMLR 1 (E.C.J.1990) (granting injunction against enforcement of U.K. statute that was in violation of EU law). Why the difference?

7. **Monitoring Compliance.** In *United States-India*, the parties agreed that India have fifteen months in which to implement the DSB recommendations. The EU and India then agreed to a shorter implementation time frame, resulting in an implementation date that matched that required by the *United States-India* agreement. India has since promulgated ordinances amending its law. The United States has, however, followed up with a request for consultation with India regarding whether the ordinance established a system of exclusive marketing rights that complied with the requirements of Article 70. How should the United States proceed if it remains unsatisfied with the content of the ordinance? *See* DSU, art. 21(5); *see also* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1J. WORLD INTELL. PROP. 447, 461 (1998) (comments of John Kingery) (noting that the EU and the United States are in disagreement over the meaning of Article 21(5) and 22).

8. **Cross-sectoral retaliation.** Dreyfuss and Lowenfeld illustrate the dilemma faced by Xandia in Case V in trying to fashion effective retaliatory measures within the intellectual property sector that did not cause more harm than good. It is perhaps unsurprising, therefore, that cross-sectoral retaliation was frequently touted by U.S. representatives as one of the primary advantages of addressing inadequate intellectual property protection within trade law mechanisms and institutions (whether through Special 301 or the WTO). In which circumstances does cross-sectoral retaliation provide the most significant advantage over traditional intra-intellectual property law measures? Can it be argued that non-intellectual property based retaliation is not only more effective in certain circumstances, but may also be most appropriate? Is retaliation in the form of refusal to recognize the intellectual property rights of parties from the violating country a permissible form of retaliation? Even if it is permissible, what limits on its use would you recommend? Are there some types of intellectual property disputes where it would be particularly inadvisable to recommend this form of suspension? Developing countries have argued that retaliation is not an effective enforcement mechanism for them, and wish to develop alternative enforcement vehicles (such as the award of monetary damages). *See* Kim Van der Borght, *The Review of the WTO Understanding on Dispute Settlement: Some Reflections on the Current Debate*, 14 AM. U. INT'L L. REV. 1223, 1232 (1999). Why might a prevailing developing country be unhappy with retaliation as its only form of relief?

The possibility of cross-sectoral retaliation theoretically works in both directions. But the following arbitrators' opinion suggests that some of the difficulties that might persuade Xandia to look outside the TRIPS Agreement for relief in Case V might also caution against authorizing suspension of TRIPS obligations as retaliation for non-TRIPS GATT violations.

EUROPEAN COMMUNITIES--REGIME FOR THE IMPORTATION, SALE AND DISTRIBUTION OF BANANAS--RECOURSE TO ARBITRATION BY THE EUROPEAN COMMUNITIES UNDER ARTICLE 22.6 OF THE DSU

(Decision by the Arbitrators, March 24, 2000)

[The EC banana regime was found to be inconsistent with Articles I and XIII of GATT and Articles II and XVII of GATS. The original panel was reconvened, pursuant to Article 21.5 of the DSU, upon request by Ecuador, and its report was adopted by the DSB. There were no findings of violations under the TRIPS Agreement in the report of the reconvened panel. On 8 November 1999, Ecuador requested authorization by the DSB to suspend concessions or other obligations under the TRIPS Agreement, the GATS and GATT 1994 in an amount of US$450 million. Ecuador submitted that withdrawal of concessions in the goods sector was not practicable or effective. The EU requested arbitration pursuant to Article 22.6 of the DSU, arguing that (i) that the amount of suspension of concessions or other obligations requested by Ecuador was excessive since it has suffered by far less nullification or impairment than alleged; and (ii) that Ecuador had not followed the principles and procedures set forth in Article 22.3 of the DSU in suspending concessions or other obligation across sectors and agreements. The DSB referred the matters to arbitration in accordance with Article 22.6 of the DSU. The Arbitrators were the members of the original panel. After resolving various procedural issues, and stressing the "basic rationale" that "the suspension of concessions or other obligations across sectors or across agreements (beyond those sectors or agreements under which a panel or the Appellate Body has found violations) remains the exception," the arbitrators considered Ecuador's request for suspension of other obligations under the TRIPS Agreement, pursuant to subparagraph (c) of Article 22.3, as obligations which it intends to suspend across sectors and agreements.]

I. REMARKS ON THE SUSPENSION OF TRIPS OBLIGATIONS

A. THE SCOPE OF THE SUSPENSION TO BE AUTHORIZED UNDER THE TRIPS AGREEMENT

We recall that Article 19 of the DSU provides that "the panel or the Appellate Body may suggest ways in which the Member concerned could implement the recommendations". While Article 19 does not explicitly mention arbitration proceedings under Article 22, in our view, there is nothing in the DSU that would preclude Arbitrators, acting pursuant to Article 22.6, from making suggestions on how to implement their decision. Given that this case is the first one involving subparagraphs (b)-(e) of Article 22.3 and the first one concerning the suspension of TRIPS obligations, we believe that it is particularly appropriate to set out our views on the suspension of TRIPS obligations. We also note that Ecuador has expressed its interest in hearing our views on these issues.

We first note that Article 1.3 of the TRIPS Agreement defines in general the reach of the TRIPS Agreement:

> Members shall accord the treatment provided for in this Agreement to the nationals of other Members. In respect of the *relevant intellectual property right*, the nationals of other Members shall be understood as those *natural or legal persons* that would meet the criteria for eligibility for protection provided for in the Paris Convention (1967), the Berne Convention (1971), the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits, were all Members of the WTO members of those conventions. .". (emphasis added, footnotes omitted).

Thus, an authorization by the DSB of the request for suspension vis-à-vis the European Communities would permit Ecuador to suspend the treatment provided for in the TRIPS provisions in question with respect to nationals within the meaning of Article 1.3 of those 13 EC member States[104] which the request for suspension by Ecuador refers to.

. . .

[E]cuador's request for the suspension of TRIPS obligations refers to Article 14 of Section 1 of the TRIPS Agreement on

"Copyright and related rights" as well as Section 3 on "Geographical indications" and Section 4 on "Industrial designs".

In respect of the protection of *performers, producers of phonograms* (sound recordings) and *broadcasting organisations* within the meaning of Article 14 of the TRIPS Agreement, criteria for eligibility for protection of persons are defined in the Rome Convention. In this respect, it is important to point out that, in the case of suspension of obligations under Article 14, as requested by Ecuador, there may be different right holders of the different rights related to phonograms and that these right holders do not necessarily all have the nationality, within the meaning of Article 1.3 of the TRIPS Agreement, of one of those 13 member States in question, even if the phonogram concerned has been produced in one of those member States. The performer having rights to a phonogram under Article 14 may be a non-national of these 13 member States, but the producer of the phonogram may be a national of those member States. Such complicated situations will have to be carefully considered by Ecuador in implementing the suspension of TRIPS obligations, if authorized by the DSB, so as not to adversely affect right holders who cannot be regarded as nationals of those 13 EC member States.

In respect of the criteria for eligibility for the protection of *industrial designs*, the Paris Convention is relevant.

The legal protection of *geographical indications* is enjoyed by "interested parties" within the meaning of Articles 22.2 and 23.1 of the TRIPS Agreement. Article 22.1 of the TRIPS Agreement creates a clear link between a region, locality or territory and a protectable geographical indication. This implies that the suspension of protection of geographical indications would concern parties interested in geographical indications which identify a good as originating in the territory of one of the respective 13 EC member States, or a region or locality in that territory.

It should be emphasized that in its relation to all other WTO Members and the natural or legal persons that are their nationals, Ecuador continues to be bound by its obligations under the TRIPS Agreement and that all these WTO Members continue to be entitled to exercise their rights under the DSU with respect to Ecuador.

B. THE SUSPENSION OF TRIPS OBLIGATIONS AND THE RELATION WITH THE CONVENTIONS ADMINISTERED BY WORLD INTELLECTUAL PROPERTY ORGANISATION (WIPO)

The parties disagree on whether Article 2.2 of the TRIPS Agreement prevents or permits the suspension of TRIPS obligations which have a relation to the Paris Convention, Berne Convention, the Rome Convention or the IPIC Treaty. Article 2.2 provides:

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

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

In any event, Article 2.2 only refers to Parts I to IV of the TRIPS Agreement, while the provisions on "Dispute Prevention and Settlement" are embodied in Part V. This Part of the TRIPS Agreement contains, inter alia, Article 64.1 which provides that the DSU applies to disputes under the TRIPS Agreement unless otherwise specifically provided therein. . . . However, nothing in Article 64 or other Articles of the TRIPS Agreement provides specifically that Article 22 of the DSU does not apply to the TRIPS Agreement.

We further note that subparagraphs (f)(iii) and (g)(iii) of Article 22.3 of the DSU[105] (iii) with respect to intellectual property rights, the Agreement on TRIPS." explicitly define that Sections of the TRIPS Agreement are "sectors", and that the TRIPS Agreement is an "agreement", in respect of which the suspension of TRIPS obligations may be sought, pursuant to subparagraphs (b-c) of Article 22.3, by a complaining party and authorized by the DSB. Provided that Ecuador's request for the suspension of certain TRIPS obligations is consistent with all the requirements of Article 22 of the DSU, including paragraphs 3 and 4 thereof, neither Article 2.2 read in context with Article 64 of the TRIPS Agreement, nor any other provision of the WTO agreements indicate that an authorization by the DSB of that request would in theory be prohibited under WTO law.

It is not within our jurisdiction as Arbitrators, acting pursuant to Article 22.6 of the DSU, to pass judgment on whether Ecuador, by suspending, once authorized by the DSB, certain TRIPS obligations, would act inconsistently with its international obligations arising from treaties other than the agreements covered by the WTO (e.g. the Paris, Berne and Rome Conventions which Ecuador has ratified). It is, if at all, entirely for Ecuador and the other parties to such treaties to consider whether a specific form chosen by Ecuador for implementing such suspension of certain TRIPS obligations gives rise to difficulties in legal or practical terms under such treaties.

C. THE EFFECT ON THIRD-COUNTRY WTO MEMBERS OF THE SUSPENSION OF CERTAIN TRIPS OBLIGATIONS BY ECUADOR WITH RESPECT TO THE EUROPEAN COMMUNITIES

It is evident that an authorization by the DSB for Ecuador to suspend certain TRIPS obligations would concern Ecuador only. Such authorization does not exonerate any other WTO Member from abiding by its WTO obligations, including those under the TRIPS Agreement.

The obligations of other WTO Members include those in respect of action against imports of goods which involve other infringements of intellectual property rights. In this context, Article 51 in Section 4 on "Special Requirements Related to Border Measures", contained in Part III of the TRIPS Agreement, provides that "Members shall . . . adopt procedures to enable a right holder who has valid grounds for suspecting that the importation of counterfeit trade or pirated copyright goods may take place", to request customs authorities to suspend release into free circulation of such goods. According to footnote 14 to Article 51, "pirated copyright goods" include copies made without the consent of the right holder or person duly authorized by the right holder in the country of production, 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.

We note that, as a result of an authorization by the DSB of Ecuador's request to suspend Article 14 of the TRIPS Agreement, phonograms would be produced in Ecuador consistent with WTO law. However, such phonograms would still be copies made without the consent of the right holder or a person duly authorized by the right holder in the country of production. Pursuant to footnote 13 to Article 51, WTO Members are under no obligation to apply procedures concerning "special requirements related to border measures" to imports of goods put on the market in another country by or with the consent of the right holder. However, with respect to phonograms produced in Ecuador without the consent of the right holder, but consistent with an authorization by the DSB under Article 22.7 of the DSU, the obligations of Article 51 of the TRIPS Agreement to apply such procedures would remain in force for all WTO Members.

Distortions in third-country markets could be avoided if Ecuador would suspend the intellectual property rights in question only for the purposes of supply destined for the domestic market. An authorization of a suspension requested by Ecuador does of course not entitle other WTO Members to derogate from any of their obligations under the TRIPS Agreement. Consequently, such DSB authorization to Ecuador cannot be construed by other WTO Members to reduce their obligations under Part III of the TRIPS Agreement in regard to imports entering their customs territories.

D. THE SUSPENSION OF TRIPS OBLIGATIONS AND INTERFERENCE WITH PRIVATE RIGHTS

We are conscious that the requested suspension of certain TRIPS obligations ultimately interferes with private rights owned by natural or legal persons. These persons are highly unlikely to have any connection with the ongoing failure of the European Communities to fully comply with the DSB rulings in the proceeding under Article 21.5 of the DSU in Bananas III between Ecuador and the European Communities. The same logic holds true for the suspension of concessions or other obligations under the GATT (or other agreements in Annex 1A) and the GATS as well. However, the interference with private property rights of individuals or companies may be perceived as more far-reaching under the TRIPS Agreement, given the potentially unlimited possibility to copy phonograms or use other intellectual property rights. In contrast, producers of goods and service suppliers which are affected by the suspension of concessions or other obligations under the GATT or the GATS may stop exporting to the Member imposing such suspension.

We are aware that the implementation of the suspension of certain TRIPS obligations may give rise to legal difficulties or conflicts within the domestic legal system of the Member so authorized (and perhaps even of the Member(s) affected by such suspension). The resolution of such difficulties is of course a matter entirely within the prerogatives of the Member requesting authorization. Obviously, the degree of such difficulties is likely to depend on the means chosen by Ecuador for implementing the suspension of certain TRIPS obligations in relation to the 13 EC member States.

E. CONCLUDING OBSERVATIONS ON THE SUSPENSION OF TRIPS OBLIGATIONS

[The Arbitrators read their mandate under Article 22(6)-(7) of the DSU with respect to comparing the level of impairment suffered with the level of suspension of concessions proposed, as limited to estimating Ecuador's losses (in actual and potential trade and trade opportunities) in Ecuadorian bananas and distribution services by suppliers of Ecuadorian origin]. However, in the light of the provisions of Article 19.1 of the DSU referred to above, we wish to make some remarks on Ecuador's intentions on how to implement the suspension of certain TRIPS obligations, if authorized by the DSB.

We note with approval that, in implementing the suspension of certain TRIPS obligations at a level not exceeding the level authorized by the DSB, Ecuador intends to account not only for the actual impact of the suspension of intellectual property rights currently used subject to the authorization by the right holder and subject to the payment of remuneration. The mechanisms described in detail below reflect Ecuador's intention to consider also the potential impact of such suspension in terms of the additional use of the intellectual property rights in question. Such use may be expected to increase as a result of the fact that the DSB's authorization would allow using such intellectual property rights without payment of remuneration to EC right holders and without their authorization, provided that prices for the products incorporating the intellectual property rights concerned decrease.

More specifically, we note that in its response to questions by the Arbitrators, Ecuador submits that it never had the intention to simply abolish all rules on "related rights" and to put all EC produced phonograms in the public domain which it could arguably do only if it had requested suspension of Article 9 of the TRIPS Agreement, too. If Ecuador were authorized by the DSB to suspend the application of "related rights" under Article 14 vis-à-vis the European Communities, it would consider installing a system whereby companies or individuals established in Ecuador could obtain an authorization from the Ecuadorian government to apply the suspension of concessions derived from Article 14 of the TRIPS Agreement within the Ecuadorian territory. This authorization would be granted through a licensing system which limits the suspension of concessions in terms of quantity, value and time. The Ecuadorian government would reserve its right to revoke these licences at any time. Each reproduction of a sound recording under this licensing scheme would correspond to a "suspension value" equivalent to the "related right value" of a new, commercially most interesting sound recording. For that purpose, Ecuador would use the average "related right value" of sound recordings in Europe as estimated by the International Federation of the Phonographic Industry (IFPI). A certain proportion of this value would represent the performer's share and another, larger part would represent the producer's share. If the level of suspension thus calculated were to risk reaching (together with authorized suspension in other sectors and/or under other agreements, if any) the level of nullification and impairment suffered by Ecuador, the authorization scheme would be stopped. Ecuador believes that the chances that this would happen are very close to nil.

Regarding geographical indications, Ecuador notes that the analysis should be different from the analysis with regard to Article 14 of the TRIPS Agreement. The non-respect of "related rights" on a sound recording results in a product that is identical in all respects to the product that is put on the market with the authorization of the "related rights" holder. The CD that would be produced under Ecuador's licensing scheme would be cheaper than a CD produced with the authorization and remuneration of the "related rights" holder, and the former would become a substitute for the latter. For products identified by a geographical indication that would be clearly different. For these products it is only possible to make use of the geographical indication, which is different from reproducing the original product. However, the use of geographical indications could be licensed in similar terms as explained for sound recordings above. Licences could be granted for a determined product and a determined value, quantity and time. The licences would be granted for the exclusive use of the holder of the licence and the Ecuadorian government would reserve its rights to revoke these licences at any time. The test for determining the level of suspension would be the extent to which protected EC products would be replaced by non-protected products from other sources.

With respect to industrial designs, Ecuador envisages a similar licensing system as described above even though it considers that the economic effect of suspending the protection of industrial designs would be limited.

In our view, the mechanisms envisaged by Ecuador for implementing the suspension of certain sections of the TRIPS Agreement, if authorized by the DSB, would take account of many of our remarks made in the preceding sections.

Finally, we recall that, according to Article 22.8 of the DSU, an authorization by the DSB of a request for the suspension of concessions or other obligations is in principle a temporary action, pending the removal of the WTO-inconsistent measure at issue, a solution remedying the nullification or impairment of benefits, or a mutually satisfactory solution. Given this temporary nature of the suspension of concessions or other obligations, economic actors in Ecuador should be fully aware of the temporary nature of the suspension of certain TRIPS obligations so as to minimise the risk of them entering into investments and activities which might not prove viable in the longer term.

. . .

[The Arbitrators concluded that (i) Ecuador's request had not followed, albeit to a limited extent, the principles and procedures set forth in Article 22.3, especially regarding the suspension of concessions under the GATT with respect to goods destined for final consumption, and that (ii) the level of suspension requested by Ecuador exceeded the level of nullification and impairment suffered by it as a result of the EC's failure to bring the EC banana import regime into compliance with WTO law within the reasonable period of time foreseen for that purpose. Accordingly, the Arbitrators suggested to Ecuador that it submit another request to the DSB for authorization of suspension of concessions or other obligations consistent with the panel's conclusions. The panel then set out its calculations from which Ecuador could determine an appropriate suggestion. In particular, it suggested that Ecuador may request, pursuant to paragraph 7 of Article 22, and obtain authorization by the DSB to suspend concessions or other obligations of a level not exceeding US$201.6 million per year which the Arbitrators estimated to be equivalent within the meaning of Article 22.4 to the level of nullification and impairment suffered by Ecuador as a result of the WTO-inconsistent aspects of the EC import regime for bananas. The arbitrators commented that Ecuador may request, pursuant to subparagraph (a) of Article 22.3, and obtain authorization by the DSB to suspend concessions or other obligations under the GATT concerning certain categories of goods in respect of which suspension of concessions is effective and practicable, and to suspend commitments under the GATS with respect to "wholesale trade services" in the principal sector of distribution services.]

To the extent that suspension requested under the GATT and the GATS . . . is insufficient to reach the level of nullification and impairment indicated [above], Ecuador may request, pursuant to subparagraph (c) of Article 22.3, and obtain authorization by the DSB

to suspend its obligations under the TRIPS Agreement with respect to the . . . sectors of that Agreement [listed in its request] . . .

We recall the general principle set forth in subparagraph (a) of Article 22.3 that the complaining party should first seek to suspend concessions or other obligations with respect to the same sectors as those in which the panel or Appellate Body has found a violation or other nullification or impairment. In this respect, we recall that, according to the report in the proceeding between Ecuador and the European Communities under Article 21.5, the GATT and the sector of distribution services under the GATS are those sectors within the meaning of subparagraph (f) of Article 22.3 in which violations were found by the reconvened panel. More specifically, we recall that the reconvened panel in the above-mentioned proceeding under Article 21.5 found the revised EC banana regime, inter alia, to be inconsistent with Articles I and XIII of GATT.

. . .

We have made extensive remarks above on the suspension of obligations under the TRIPS Agreement and in particular concerning the legal and practical difficulties arising in this context. Given the difficulties and the specific circumstances of this case which involves a developing country Member, it could be that Ecuador may find itself in a situation where it is not realistic or possible for it to implement the suspension authorized by the DSB for the full amount of the level of nullification and impairment estimated by us in all of the sectors and/or under all agreements mentioned above combined. The present text of the DSU does not offer a solution for such an eventuality. Article 22.8 of the DSU merely provides that the suspension of concession or other obligations is temporary and shall only be applied until the WTO-inconsistent measure in question has been removed, or the Member that must implement recommendations or rulings provides a solution to the nullification or impairment of benefits, or a mutually satisfactory solution is reached. We trust that in this eventuality the parties to this dispute will find a mutually satisfactory solution.

NOTES AND QUESTIONS

1. **Suspension of TRIPS obligations and other intellectual property treaties.** The arbitrators noted that they do not have jurisdiction to determine whether the suspension of certain TRIPS obligations by Ecuador, even if authorized by the DSB, might violate obligations arising from other treaties such as the Paris and Berne Conventions. If the EU sought to pursue the argument that Ecuador's actions in such circumstances violated other international obligations, where would the EU initiate proceedings? If you were counsel for Ecuador, how would you respond? If this did give rise to a violation of those other treaties, what does this suggest about the incorporation of intellectual property within the multilateral trade dispute settlement system?

2. **Enforceable standards and national sovereignty.** Some U.S. critics of the WTO system have complained that the possibility of retaliation against the United States upon receipt of adverse DSB determinations represents a loss of U.S. sovereignty. Is that true? If the WTO system, and the TRIPS Agreement, were not in place, how might other countries respond to perceived inadequacies in U.S. intellectual property protection? To what extent has national sovereignty been surrendered and by whom? *See* David Palmeter, *National Sovereignty*, at 89-91.

3. **Effect of binding dispute settlement**. What are the different ways in which national authorities might react to an adverse decision of the WTO Dispute Settlement Body? In what ways might the binding, legalistic nature of such decisions help or hurt domestic national debates about intellectual property? *See* Daniel A. Farber & Robert E. Hudec, *Free Trade and the Regulatory State: A GATT's Eye View of the Dormant Commerce Clause*, 47 VAND. L. REV. 1401, 1405-06, 1445 (1994) (suggesting helpful effects). In what ways might the possibility of binding WTO dispute settlement affect national authorities addressing issues with potential TRIPS implications?

Would it have been better to strengthen the jurisdiction and enforcement powers of the International Court of Justice rather than to assign international intellectual property law to WTO panels? *See* Trachtman, *supra*, at 376 ("How can a WTO dispute resolution decision ignore other international law? On the other hand, how can the WTO dispute resolution process purport to interpret and apply non-WTO international law?"). To what extent has the fate of international intellectual property law been assigned to WTO panels?

4. **The importance of the DSU.** Throughout Chapters V-VI, we raised several questions regarding whether various national laws (real and supposed) would be in compliance with TRIPS. Review those questions, and consider whether your answers would have been different had you taken into account the detailed provisions of the DSU? If so, what does this tell you about the DSU and the purpose of the WTO dispute settlement process? Might it be appropriate for your analysis of the national law in the abstract to be different from your analysis in the context of the WTO dispute settlement process? If so, why?

MINISTERIAL REVIEW OF THE DISPUTE SETTLEMENT UNDERSTANDING

Members have submitted comments and suggested reforms of the system as part of a planned review of the DSU. The review was scheduled to be completed within four years of the establishment of the WTO, *see* Decision on the Application and Review of the Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, 33 I.L.M. 1125, 1259, but has been extended because of the volume of proposals. As noted above, *see supra* page __, both the United States and the European Union have urged greater transparency (principally, open hearings and removal of restrictions on publication of the parties' submission) and the EU has proposed reforming the panel composition in the image of the Appellate Body. *See* Kim Van der Borght, *The Review of the WTO Understanding on Dispute Settlement: Some Reflections on the Current Debate*, 14 AM. U. INT'L L. REV. 1223, 1238-41 (1999). For a general discussion of some possible reforms, see Robert E. Hudec, *The New WTO Dispute Settlement Procedure: An Overview of the First Three Years*, 8 MINN. J. GLOBAL TRADE 1 (1999). The cloak of secrecy is pervasive at present. Indeed, the panel in *United States-Section 110(5) of the U.S. Copyright Act, supra* Ch VI, commented adversely on the confidentiality of information that "did not assist" the panel in discharging its duty to make findings that would best enable the DSB to perform its dispute settlement functions. *See id.* at nn.194, 211.

The European Commission has also suggested that the DSU be amended to include clearer statements about the role of pre-complaint consultations. Before a dispute panel is constituted, the party alleging a violation must request consultations with the putative defendant. Only upon the expiry of 60 days without the conclusion of agreement between the parties can a complaint be filed with the WTO. *See* DSU, art. 4.7. What should be the role of consultations? *See* DSU, arts. 3-4. Do they fit in the WTO process? *See* David Palmeter, *National Sovereignty*, *supra*, at 80. Many disputes concerning TRIPS compliance have been resolved by bilateral consultations between the members concerned without recourse to formal dispute settlement proceedings. And, indeed, even where formal dispute settlement proceedings are initiated, discussions between the parties are encouraged throughout the process with a view to reaching a mutually acceptable solution. *Cf.* DSU, art. 3(7) (reciting the philosophy of mutually acceptable solutions). If a Member country displayed a derisory attitude toward its obligation to consult with another country, would you support that conduct being raised before a WTO panel? What would be the basis upon which the issue could be raised, and what would be the relief that a panel could grant? The European Commission's proposals would amend the DSU to (i) require that the request for consultations outline the complainant's case unambiguously; (ii) confirm that the legal claims made before the panel must have been raised during consultations; (iii) make clear that statements made during consultations cannot be used before the panel; and (iv) permit the parties to seek written answers from each other. *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 448 (1998) (comments of Prof. Brigitte Stern); Kim Van der Borght, *The Review of the WTO Understanding on Dispute Settlement: Some Reflections on the Current Debate*, 14 AM. U. INT'L L. REV. 1223, 1235-38 (1999). Would you support these changes, and why? *Cf.* DSU, art. 6(2). In what ways is the current role of consultations different from private court-based litigation?

In what other ways is the model of state to state litigation before the WTO different from other adjudicatory models? Consider in particular the differences between the WTO process and: (i) other state to state forms of dispute resolution, and (ii) private

litigation models. Can you explain those differences? How do they affect the ability of the WTO dispute resolution process to achieve its objectives? Should the shift be taken further toward juridicization of the process, and in what ways? What would be the costs and benefits of furthering this shift? *See* The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 462 (1998) (comments of John Kingery); The Review of the WTO's Dispute Settlement Understanding: Which Way?, 1 J. WORLD INTELL. PROP. 447, 472 (1998) (comments of Thomas Cottier). That is, how would a highly adjudicatory system change the nature of international intellectual property dispute resolution (and possibly international intellectual property law)? Would the costs and benefits fall disproportionately on one group or another?

In addition to a desire for enforcement mechanisms other than retaliation, developing countries have sought increased funding for and access to legal expertise necessary to prosecute and defend actions. The DSU currently provides developing countries with legal assistance from the WTO Secretariat, *see* DSU, art. 27(2), and proposals from developing countries focus on enlarging the Secretariat to increase that assistance. One such proposal suggests creating a Permanent Defense Counsel to assist developing countries in proceedings brought against them. *See* Kim Van der Borght, *The Review of the WTO Understanding on Dispute Settlement: Some Reflections on the Current Debate*, 14 AM. U. INT'L L. REV. 1223, 1230-32 (1999).

THE RELATIONSHIP BETWEEN WTO DISPUTE SETTLEMENT AND SPECIAL 301

The Special 301 mechanisms were introduced by Congress in 1988 largely as a result of the ineffectiveness of the pre-1994 GATT system. Does the WTO system, between periodic TRIPS Council review and binding dispute settlement with effective enforcement, make the Special 301 mechanism unnecessary? Congress did not appear to think so. Section 314(c) of the Uruguay Round Agreements Act, which implemented the GATT Agreement, amended the Trade Act to provide that a failure to provide adequate and effective protection of intellectual property could still trigger Special 301 measures "notwithstanding the fact the foreign country may be in compliance with the specific obligations of the TRIPS Agreement." Trade Act, § 301(d)(3).

Office of the United States Trade Representative
RESULTS OF SPECIAL 301 ANNUAL REVIEW (April 30, 1999)

PREVIOUSLY-FILED WTO TRIPS CASES

Over the past year, significant results have been achieved in several of the dispute settlement cases previously announced by Ambassador Barshefsky. In 1997, Ambassador Barshefsky announced initiation of WTO dispute settlement proceedings against Sweden, Ireland and Denmark. In 1998, Ambassador Barshefsky initiated dispute settlement proceedings against Greece and the European Union concerning rampant television piracy in Greece and their failure to comply with the enforcement provisions of the TRIPS Agreement.

On November 25, 1999, Sweden passed legislation amending its intellectual property laws to provide provisional remedies in civil enforcement proceedings. This type of remedy is particularly important for enforcement efforts in the software industry. On December 2, 1998, the United States and Sweden formally notified the WTO that they had reached a mutually satisfactory resolution to the U.S. complaint.

The cases against Ireland, Denmark, Greece and the EU are still pending, although progress has been achieved over the past year. In February 1998, Ireland committed to accelerate its work on a new comprehensive copyright law, and in July 1998 passed expedited legislation addressing two pressing enforcement issues. Denmark is presently considering options for amending its law to strengthen provisional remedies available to intellectual property right holders. In Greece, the rate of television piracy declined in 1998, and in September, Greece enacted legislation that provides an additional administrative enforcement procedure against copyright infringement by television stations. Ambassador Barshefsky stated, "We urge the Government of Greece to implement its new enforcement procedure in a strong and consistent manner, and to take steps to improve the handling of intellectual property cases in the court system in order to resolve this dispute."

Ambassador Barshefsky also expressed satisfaction today with the recent conclusion of the United States' dispute settlement proceedings against India. In December 1997, the WTO Appellate Body upheld a panel ruling in favor of the United States in this case involving patent protection for pharmaceuticals and agricultural chemicals. India's deadline for compliance was April 19, 1999. Earlier this year, the Government of India promulgated a temporary ordinance to meet its obligations, and then last month, it enacted permanent legislation entitled the Patents (Amendment) Act 1999. Through these mechanisms, the Government of India has established a mechanism for the filing of so-called "mailbox" patent applications, and a system for granting exclusive marketing rights for pharmaceutical and agricultural chemical products. The United States has expressed serious concerns regarding certain features of the new Indian law regarding exclusive marketing rights; however, in light of the discretionary nature of some of the problematic provisions of the new law, as well as the significant steps that India has taken or pledged to take to mitigate the impact of others, the USTR has concluded that no further action is appropriate at this time. Should any of the problematic provisions in the Indian law be invoked to the detriment of U.S. right holders in the future, the United States retains its rights to take further action.

United States–Sections 301-310 of the Trade Act of 1974, WT/DS152/R (WTO 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 SAAM, 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."

Id. ¶ 7.131.

NOTES AND QUESTIONS

1. What is the purpose of retaining Special 301? Is it appropriate? Is it prudent policy? Is it hurting or helping the appropriate development of international intellectual property law? Is it hurting or helping U.S. interests? What would be the consequences of the United States pursuing measures under Special 301 where a panel has held the other country in question to be in compliance with TRIPS? Could this be used by the United States to circumvent the moratorium on nonviolation complaints? Could it be used to require other countries to implement standards that the United States was unable to include in the agreement during negotiations? Are there any circumstances where this may be more appropriate?

2. To what extent do the procedures pursued through Special 301 mesh with or interfere with the mechanisms established by the TRIPS Agreement? To what extent would the USTR's unilateral actions against China in 1994-95 be available if China joined the WTO and the United States now pursued its claims through the WTO mechanisms? To what extent were the priorities of the United States with respect to China reflected in the priorities of the TRIPS Agreement? (Compare the summary of U.S.-China agreements in the Newby article with the important provisions of TRIPS.) Compare the suggestions made earlier in this Chapter by Newby regarding alternative means of dealing with inadequate intellectual property protection with the forms of assistance to developing countries contemplated by TRIPS. To what extent have the views of Newby been reflected in the TRIPS system, whether in the dispute resolution procedure or other aspects of the WTO or TRIPS system?

3. The ability of member states to enforce international intellectual property obligations of other states through the WTO process is hailed as one of the most significant achievement of TRIPS. But countries are also obliged "not to make a determination that a violation [of TRIPS] has occurred except in accordance with [the DSU] procedures and not to retaliate except in accordance with authorization from the WTO's Dispute Settlement Body." Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, J. INT'L ECON. L. 347 (1999). Does current U.S. practice under Special 301 comply with the letter or spirit of this concomitant obligation regarding the exclusivity of the WTO system? Does current EU practice comply with the same obligation?

4. The United States has pursued several complaints before the WTO in addition to those referenced in the excerpt from the 1999 USTR Annual Report; the United States has now initiated 14 proceedings. Several of these have been referenced throughout this book, most notably the successful proceedings brought against India and the recent successful complaint against Canada regarding patent term. The United States has just requested the constitution of a panel with respect to the dispute against the EU over its alleged denial of national treatment with respect to geographical indications. *See supra* Ch. V.F.

2. WIPO-WTO Relations

a. 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. For a very good discussion of the institutional relationship between WIPO and the WTO going forward, *see* Frederick M. Abbott, *The Future of the Multilateral Trading System in the Context of TRIPS*, 20 HAST. INT'L & COMP. L. REV. 661 (1997).

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* Article 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.

b. The use of Post-TRIPS WIPO Treaties and TRIPS Council Developments in WTO Dispute Settlement Proceedings

Despite the conclusion of the TRIPS Agreement, WIPO has continued in its role as a primary vehicle for drafting, revision and conclusion of international intellectual property treaties. *See* Chapter IV. As suggested by Dreyfuss and Lowenfeld, WTO panels will almost certainly refer to developments in WIPO to assist in the interpretation of TRIPS. But what is the basis upon which they can do so, and what influence will such developments have? The issue was touched upon briefly by the panel in *United States–Section 110(5) of the U.S. Copyright Act*, where the United States had invoked the language of the WIPO Copyright Treaty to support its interpretation of the Berne Convention minor exceptions doctrine.

At first glance, the WIPO Copyright Treaty would not appear to have any application in the TRIPS environment, or with respect to interpretation of the Berne Convention. *See* WIPO Copyright Treaty, art. 1 ("This Treaty shall not have any connection with treaties other than the Berne Convention, nor shall it prejudice any rights and obligations under any other treaties"). The panel was apparently not distracted by that provision and clearly took notice of the provisions in the WIPO Copyright Treaty. A short except from the opinion follows.

UNITED STATES–SECTION 110(5) OF THE US COPYRIGHT ACT
Report of the Panel (WTO DSB, June 15, 2000), WT/DS160/R

[In support of its interpretation of the legal status of the minor exceptions doctrine under the TRIPS Agreement, the panel discussed subsequent developments, and in particular, the WIPO Copyright Treaty, which contains provisions similar to the three-step test found in the Berne Convention and TRIPS.]

Subsequent developments

The United States argues that Article 10 of the WIPO Copyright Treaty ("WCT"), adopted at a Diplomatic Conference on 20 December 1996 organized under the auspices of WIPO, reflects the standard set forth in Article 13 of the TRIPS Agreement. Paragraph (1) of that Article provides a standard for permissible limitations and exceptions to the rights granted to authors under the WCT, while paragraph (2) extends this standard to the application of the provisions of the Berne Convention (1971). In the view of the United States, it becomes clear from the Agreed Statement concerning Article 10 of the WCT that the signatories of the WCT, which include the European Communities and its member States and the United States, commonly recognized the minor exceptions doctrine. In support of its view, the United States also points out that Article 10 of the WCT is based on Article 12 of the Basic Proposal for the 1996 Diplomatic Conference. The commentary in the Basic Proposal explains that the TRIPS Agreement already enunciates the standard of that Article for limitations and exceptions in Article 13 of the TRIPS Agreement, and further states that "[n]o limitation, not even those that belong in the category of minor reservations, may exceed the limits set by the three-steps test".

The European Communities argues that the WCT has to date been ratified by only a small number of contracting parties and has not yet reached the threshold of thirty ratifications necessary for its entry into force.

We note that the subsequent developments just mentioned do not constitute a subsequent treaty on the same subject-matter within the meaning of Article 30, or subsequent agreements on the interpretation of a treaty, or subsequent practice within the meaning of Article 31(3). Thus such subsequent developments may be of rather limited relevance in the light of the general rules of interpretation as embodied in the Vienna Convention. However, in our view, the wording of the WCT, and in particular of the Agreed Statement thereto, nonetheless supports, as far as the Berne Convention is concerned, that the Berne Union members are permitted to provide minor exceptions to the rights provided under Articles 11 and 11*bis* of the Paris Act of 1971, and certain other rights. It appears that the objective was not to disallow the provision of such minor exceptions by WCT parties, but rather to make their application subject to the "three step test" contained in Article 10(2) of the WCT.

[W]e discussed [above] the need to interpret the Berne Convention and the TRIPS Agreement in a way that reconciles the texts of these two treaties and avoids a conflict between them, given that they form the overall framework for multilateral copyright protection. The same principle should also apply to the relationship between the TRIPS Agreement and the WCT. The WCT is designed to be compatible with this framework, incorporating or using much of the language of the Berne Convention and the TRIPS Agreement. The WCT was unanimously concluded at a diplomatic conference organized under the auspices of WIPO in December 1996, one year after the WTO Agreement entered into force, in which 127 countries participated. Most of these countries were also participants in the TRIPS negotiations and are Members of the WTO. For these reasons, it is relevant to seek contextual guidance also in the WCT when developing interpretations that avoid conflicts within this overall framework, except where these treaties explicitly contain different obligations.

NOTES AND QUESTIONS

1. **The current relevance of the WCT**. The panel accepted that the WCT constituted neither a subsequent agreement or practice within the meaning of Article 31(3) of the Vienna Convention. How is the WCT relevant and what weight was it afforded by the panel?

2. **WCT as subsequent agreement and state practice.** Neil Netanel has offered a thoughtful analysis of how the WTO dispute settlement process might be infused by consideration of recent international copyright law developments, and in particular the WIPO Copyright Treaty. *See* Neil W. Netanel, *The Next Round: The Impact of the WIPO Copyright Treaty on TRIPS Dispute Settlement*, 37 VA. J. INT'L L. 441, 464-75 (1997). Netanel suggests that the WCT and the accompanying Agreed Statements may constitute subsequent agreement and state practice under both Berne and TRIPS, and thus be relevant to a WTO panel's interpretation of TRIPS. (This will, Netanel concedes, depend upon a variety of considerations such as how many WTO Members adhere to the WCT and the practice of WCT parties in implementing those obligations.) Netanel's resort to the WCT in interpreting TRIPS is in large part filtered through the WCT's relevance to the interpretation of the Berne Convention. Under which interpretive provision of the Vienna Convention would the WCT be relevant to an interpretation of a *Berne* provision? What about the Agreed Statements? The WCT is declared to be a "special agreement" under Berne. *See* WCT, art. 1(1). How does that affect the use of the WCT in interpreting the Berne Convention before a WTO panel? *See* Berne Convention, art. 20.

Even if the WCT is relevant to the meaning of the Berne Convention qua Berne, is it relevant to what Netanel calls the "Berne Convention in TRIPS"? It is not obvious that it must be because, although the Berne Convention *qua* Berne is clearly relevant to the Berne Convention in TRIPS, the WCT was concluded after the TRIPS Agreement was finalized. TRIPS imposed an obligation to comply with Berne as it was understood at the time of TRIPS; as yet, TRIPS does not require member countries to comply with the WCT. Netanel acknowledges this argument but suggests that because of the closeness in time between the conclusion of TRIPS and the WCT, the WCT and Agreed Statements retain probative value as indications of the parties' understanding of Berne at the time of TRIPS. *See* Netanel, *supra* at 471. Are you persuaded by the logic of Netanel's argument? *See also* TRIPS, art. 68. If it is correct, does it support his further conclusion that panels could temper what he describes as the "maximalist" purpose of TRIPS with consideration of the "more balanced" WCT and Agreed Statements? That is, are there any limits on the ways in which the WCT can affect panel interpretation of TRIPS?

If the WCT and Agreed Statements were relevant to TRIPS interpretation only indirectly through the Berne Convention, this would limit their relevance to Berne-derived provisions, and thus (Netanel argues) prevents their consideration in construing independent provisions such as Article 13 of TRIPS. Does Netanel give too little force to his "indirect effect" argument in reaching this conclusion? How might the WCT and Agreed Statements still be relevant to an interpretation of Article 13 of TRIPS (other than as used by the panel in *Section 110(5)*.) If Netanel is correct about the limits of his "indirect effect" argument, might the WCT and Agreed Statements be directly relevant to the interpretation of TRIPS. Despite Article 1(1) of the WCT, which disclaims any connection to any treaty other than Berne, Netanel argues that the Agreed Statements (which include no corresponding disclaimer but include references to their concordance with TRIPS) may be relevant as subsequent agreements under Article 31 of the Vienna Convention. Does this mean that the Agreed Statements will be accorded more weight in interpretation than the WCT itself? (Netanel ultimately argues that the WCT and Agreed Statements would both be directly relevant as indications of subsequent state practice.).

Netanel highlights the significance of permitting resort to the WCT by considering whether a hypothetical application of the U.S. fair use doctrine permissible under the Berne Convention would also be permissible under Article 13 of TRIPS.* Can the meaning of Article 13 be textually determined? If not, one has to ask where else panels would look for guidance. *See* Paul Edward Geller, *Intellectual Property in the Global Marketplace: Impact of TRIPS Dispute Settlement*, 29 INT. LAW. 99, 112-13 (1995). Netanel suggests that a WTO panel should make reference not only to the negotiating history of Article 13—which suggests that Article 13 is a compromise between the repetition of the Berne Convention and the United States' efforts to implement a market failure based notion of fair use—and the trade context of the TRIPS Agreement, but also on the WCT (Article 10(2), which repeats Article 13 of TRIPS) and its accompanying Agreed

Statements. He concludes that "seen in light of the Agreed Statement and the Copyright Treaty's "public interest" preamble, Copyright Treaty article 10(2) and TRIPS Article 13 are meant simply as short-hand descriptions of the multivalent limitations and exceptions to copyright owner rights that are permissible under the Berne Convention. . ."

Thus, under this argument, post-TRIPS international agreements, both regional and global (and both true minimum standards instruments and optimal harmonization instruments), might be subsumed within the TRIPS/WTO system, and thus made enforceable as the highest statements of public international intellectual property law, in a variety of ways. They may be accommodated in part through the dispute settlement mechanism. For example, as higher standards become international norms through these other agreements, failure by some countries to implement those standards might be seen as distortions of trade in the same manner as were inadequacies in protection in 1994. Nonviolation complaints may provide a vehicle for the expansion of the literal text to accommodate new (probably higher) standards. Or, as Netanel suggests, those multinational agreements might be used to affect the interpretation of state practice relevant (under the Vienna Convention) to the interpretation of TRIPS.

3. **Relevance of TRIPS Council developments**. The TRIPS Council (established by Article 69) is authorized by Article 71 to "undertake reviews in the light of any new developments which might warrant modification or amendment of the Agreement." How should the availability of Article 71 reviews affect a WTO dispute settlement panel's use of post-TRIPS developments in either of these two manners? In other areas, commentators have noted the complementary roles of the dispute settlement process and "the more political legislative process." *See, e.g.,* Trachtman, *supra* at 365 (discussing interaction between Committee on trade and the Environment and panel decision in *Shrimp-Turtle* case). How might the TRIPS Council discussion of geographical indications, *see supra* Ch. V, interact with the pending complaint on a similar topic by the United States against the EU? How might a decision by a panel affect the discussions in the TRIPS Council? How should it affect those discussions? How should the TRIPS Council respond to a decision?

In *United States-India*, India sought to rely on the fact that notifications relating to the implementation of Article 70.9 had been made to the TRIPS Council and no laws implementing the obligation in the manner sought by the United States had been enacted by the countries concerned (i.e. those that could avail themselves of the benefits of the transitional provisions). *See* United States v. India, Panel Report WT/DS50/R, ¶ 4.27; *see also* Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, J. INT'L ECON. L. 347, 375 (1999) (discussing issues raised in the TRIPS Council prior to filing of an action in EC v. Canada, WT/DS/114). What weight should have been given to this fact? (Six months before the United States initiated proceedings against India for failure to comply with Articles 70(8) and 70(9) it also requested consultations with Pakistan on the same issue and followed up with a request to establish a dispute settlement panel. The parties reached a mu tually acceptable solution, which obviated the need for formal dispute resolution proceedings.)

c. The Future Roles of WIPO and the WTO in International Intellectual Property Law

Does the continued negotiation and revision of treaties within WIPO frustrate the objectives of the TRIPS Agreement? Why did countries decide to negotiate the WCT within the confines of WIPO rather than seek to amend TRIPS through the TRIPS amendment processes? *See* Frederick M. Abbott, *The Future of the Multilateral Trading System in the Context of TRIPS*, 20 HAST. INT'L & COMP. L. REV. 661, 667-70 (1997) (describing the amendment process). Should we encourage countries to act only within a single forum? If a concurrent process of treaty negotiation is to occur within WIPO, is it important to conclude a dispute resolution treaty for disputes concerning such treaties, or are WIPO treaties intended to serve merely as adjuncts to the TRIPS/WTO process? Thus, reconsider the question we asked at the beginning of this Chapter: What relevance might a WIPO Dispute Resolution Treaty have? Fred Abbott has suggested several reasons for pursuing such a treaty, including that "the creation of a dispute settlement forum outside the WTO may permit states to resolve IPR-related disputes in an environment that is less politically charged than the WTO . . . States may find it useful to be able to submit IPR-related disputes to neutral dispute settlement without the threat of trade sanctions looming against losing parties." *Id.* at 672. If Abbott is correct, what does this say about the WTO dispute settlement process? Do you agree with his assessment? What issues would the existence of concurrent dispute settlement processes raise? *Cf.* DSU, art. 23.

Where would the greatest support for a WIPO-based dispute settlement process come? The developing countries, who perceive more favorable treatment within WIPO might be expected to support a shift in focus from the WTO to WIPO. But Abbott notes that "a striking aspect [of the WIPO Dispute Resolution Treaty] negotiations . . .is that they are being pursued with considerable vigor by many of the same OECD governments that moved the international IPRs center of gravity from WIPO into the WTO." *Id.* at 672. Why might such countries be interested in a WIPO dispute resolution process? (The United States is a notable exception, having displayed no enthusiasm for the WIPO Dispute Settlement Treaty.)

From what you have read, what roles in the international intellectual property process should be allocated to the WTO and which should be assigned to the WIPO? (Ask yourself what are the strengths and weaknesses of each institution?) Are there any that should be assigned to both institutions (or to neither)? *See* Abbott, *supra* at 678-682 (suggesting an allocation of institutional responsibilities). Bearing that in mind, how would you assign judicial competence between WTO dispute settlement and any WIPO Dispute Settlement process? Fred Abbott has proposed the creation of an Inter-Institutional IPRs and Trade Governing Council, comprised of members from the WTO TRIPS Council and the WIPO Governing Bodies, who would among other things propose a "proper dispute settlement forum of first instance if a conflict between the parties arises." *Id.* at 679-80.

3. NAFTA Dispute Resolution

The NAFTA Agreement, signed one year before the TRIPS Agreement, contemplates that disputes be submitted to NAFTA dispute settlement panels. Chapter 20 of the NAFTA provides a means for resolving disputes among the NAFTA governments over the application and interpretation of the NAFTA. The process involves consultation (typically for 30 days) between the parties, an attempt at mediation and conciliation (also typically 30 days) before the "Free Trade Commission," submission of the dispute to an arbitral panel, and implementation of the panel report (with failure to do so giving rise to a right to suspend equivalent benefits). The "Free Trade Commission," which consists of the trade ministers from the three NAFTA governments, o versees the implementation of the agreement and the resolution of disputes. The Agreement also creates a NAFTA secretariat to provide assistance to the NAFTA Free Trade Commission and to the panels established under Chapter 20. Once a party has taken dispute settlement under Chapter 20 to the stage of placing the matter before the Commission, the member country is precluded from seeking parallel action under the WTO. *See* NAFTA, art. 2005(6). The process is no more transparent than the WTO process. *See* David Gantz, *Dispute Settlement Under The NAFTA And The WTO: Choice of Forum Opportunities And Risks For The NAFTA Parties*, 14 AM. UNIV. J. INT'L L. 1025, 1043 (1999) (noting that "the Chapter 20 panel process is intended to remain confidential between the parties, reflecting an almost obsessive concern for secrecy on the part of the governments. Thus, the Rules of Procedure must and do provide that 'the panel's hearings, deliberations, and initial report, and all written submissions to and communications w ith the panel shall be confidential.'"). Unlike the WTO, there is no appeal from panel reports.

As of yet, there have been no intellectual property disputes decided by a NAFTA panel. In what circumstances might a NAFTA panel be the appropriate forum for settlement of an intellectual property dispute? Consider the following. Articles 11(1)(ii), 11*bis*(1), 11*ter*(1), 14(1) and 14bis(1) of the Berne Convention require (for different types of work) that authors be granted the exclusive right to authorize the "communication" of their works to the public. If Universal Pictures, Inc., owners of copyrighted motion pictures communicates some of its works to the public in the United States by encoded (i.e., scrambled) broadcast. It discovers that unauthorized "decoders" are being manufactured and sold to the public in Canada and then later being used in the United States to enable unauthorized (i.e., and hence uncompensated) viewing of the Universal motion pictures. If Canada provides no rights for copyright owners to restrain the

manufacture and sale of this equipment, could the United States bring an action against Canada under the TRIPS Agreement? *See* Paul Edward Geller, *Intellectual Property in the Global Marketplace: Impact of TRIPS Dispute Settlement*, 29 INT. LAW. 99, 111-12 (1995); *cf.* BBC Enters. Ltd. v. Hi-tech Xtravision Ltd., [1992] R.P.C. 167, 202 (House of Lords, U.K.) (finding liability under U.K. decoding prohibition for extraterritorial sales because otherwise the protections of the law could easily be "bypassed" by devices being made abroad). If, alternatively, decoding devices were being manufactured, sold and used in Canada to decode Universal's motion pictures broadcast by satellite into Canada from the United States, could the United States bring an action against Canada under the TRIPS Agreement? How would your conclusion be affected by the existence of Article 1707 of NAFTA, which expressly requires contracting parties to criminalize and create civil liability for the manufacture, import, sale or lease of devices or systems that are primarily of assistance in decoding an encrypted program-carrying satellite signal without the authorization of the lawful distributor of such signal? *See* NAFTA, art. 1707. To what extent is your analysis affected by Article 8 or Article 11 of the WIPO Copyright Treaty (if it goes into effect)? Article 8 of the WCT expressly recognizes a broad right of communication in authors of literary and artistic works; Article 11 imposes obligations to provide adequate protection against the unauthorized circumvention of technological measures used by authors in connection with the exercise of their rights. *See infra* pages ___-___. In which fora could (and should) the United States raise any complaint? *See* NAFTA, art. 2005(2) (disputes regarding NAFTA "normally shall be settled under" the Agreement); DSU, art. 23; Berne Convention, art. 33(1). Would this affect the determination of pertinent international intellectual property law?

The United States government has interpreted Article 11 of the WCT as obligating signatory countries to render actionable the manufacture and sale of certain devices designed to circumvent technological measures used by authors to protect their rights (e.g., to prevent copying) under the Copyright Act. *See* Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anticircumvention Regulations Need to be Revised*, 14 BERKELEY TECH. L.J. 519, 531 (1999) (criticizing this interpretation); Digital Millennium Copyright Act, § 1201 (implementing legislation based upon this interpretation). The WCT has not, however, been signed by all WTO member countries. In what ways might the United States bring an action against another WTO country for failure to permit copyright owners to enjoin the manufacture and sale of such devices? *Cf.* Netanel, *supra* at 493-94 (analyzing similar hypothetical claim *against* the United States based upon pre-DMCA U.S. law). The original draft of Article 11 (Article 13 of the Basic Proposal) would have explicitly required member countries to prohibit the manufacture, importation or distribution of devices undertaken with the "primary purpose or primary effect" of circumventing anti-copying measures when the manufacturer had reasonable grounds for knowing would be used for unauthorized and nonpermitted uses. The final version of Article 11 uses more general language and provides instead that "Contracting Parties shall provide adequate legal protection and effective legal remedies" against circumvention of anti-copying measures. What effect would this change in language have on your interpretation of Article 11? *See* Netanel, *supra* at 495 (describing final language as a compromise designed to ensure flexibility). The EU has proposed a directive that implements Article 11 in a somewhat similar (but not identical) manner. *See supra* Ch. VI. If repeated by several states other than the EU and the United States, what effect would these national forms of implementation have on the interpretation of Article 11? What would you wish to know about the national legislation before answering that question? What does this tell you about the process of making international copyright law?

VI. FUTURE DIRECTIONS IN INTERNATIONAL INTELLECTUAL PROPERTY LAW AND POLICY

A. INSTITUTIONAL CHALLENGES POST-TRIPS

Paul Vandoren, THE IMPLEMENTATION OF THE TRIPS AGREEMENT
2 J. World Intell. Prop. L. 25 (1999)

I SOME CONSIDERATIONS RELATING TO THE TRIPS AGREEMENT

A. THE SITUATION PRIOR TO THE TRIPS AGREEMENT

The protection of intellectual property rights has a long international history. For a long time, binding rules have been recognized as necessary to provide a stable and predictable environment for both right-holders and users. Indeed it would probably be true to say that intellectual creations and related efforts would not be undertaken if there was little entitlement to reward. For over one hundred years, international conventions have provided us with international rules and standards which have attempted to strike a balance between the interests of right-holders and those of users of intellectual property.

There has been a varied world-wide approach towards the development of intellectual property protection. Historically, industrialized countries have allocated both private and public resources to the education, research and development of creative materials. For example, the production costs of some Hollywood films have run into tens of millions of dollars. These resources have meant that industrialized countries have been constantly upgrading their systems of protection for intellectual property rights. Gradually, protection of computer programs was introduced, layout designs for semi-conductor products were protected, producers, performers and broadcasters of phonograms and films were given enhanced possibilities to prevent others from unfairly exploiting their investment.

The protection of intellectual property rights in many developing countries evolved very differently. Some countries just maintained the level of intellectual property protection which they had inherited from their former colonial powers. This often represented the legislative situation of earlier decades. Other countries regressed in their level of intellectual property protection either because of a political belief that any kind of property constituted undesirable remains from capitalism with which one wanted to dispose of, or because the protection of patents was considered an obstacle to swift industrialization.

This all resulted in uneven world-wide protection, where a number of developing countries and newly industrialized countries provided only little, if any, effective protection of intellectual property rights. . . .

Any previous international discussions held with the aim of achieving a consensus on intellectual property right protection had not proved very fruitful. There were numerous world-wide differences in intellectual property legislation, most of which reflected differing philosophies and approaches, which had proved

very difficult to overcome.

B. MAJOR ACHIEVEMENTS OF THE TRIPS AGREEMENT

. . . The TRIPS Agreement was one of the success stories of the Uruguay Round, largely based on EU proposals. [T]he importance of intellectual property for the conditions of international trade was fully recognized. Before that, industrialized countries were losing more and more of their comparative advantage in areas such as pharmaceuticals, computer software, sound recordings or luxury goods because they were copied in countries with a low level of protection of intellectual property rights (including the enforcement of such rights). The TRIPS Agreement is designed to re-balance these trade distortions.

. . .

C. TRANSITIONAL PERIODS

Given that the TRIPS Agreement provides a significant number of new obligations, transitional periods were agreed upon to enable WTO Members to review and amend their legislation.

Developed country Members had a transition period of one year after the date of entry into force of the WTO Agreement, i.e. up until 1 January 1996. Developing country Members have, in general, five years (up until 1 January 2000) and least-developed country Members have eleven years (up until 1 January 2006). A Member in transition has been given the possibility of a transition period until the year 2000, if three criteria are met:

- it is in the process of a transformation from a centrally planned into a market, free-enterprise economy;
- it is undertaking structural reform of its intellectual property system; and
- it faces special problems in the preparation and implementation of intellectual property laws and regulations.

However, all WTO Members had to meet the national treatment and most-favoured-nation requirements as of 1 January 1996. In addition, there is the standstill clause, providing that during a transition period, Member countries shall not make changes in their legislation or practices which would result in a lesser degree of consistency with the provisions of the TRIPS Agreement.

Experience has shown that, in practice, some country Members do not wait until the end of the transitional period of which they can avail themselves, to amend their legislation. The world's major trading nations have encouraged country Members to advance the implementation of their obligations on a voluntary basis, without much success however. Therefore, the magic deadline of 1 January 2000 by which developing country Members will need to fully comply with their TRIPS obligations remains a major concern. In this respect, the Directors-General of the World Intellectual Property Organization and the World Trade Organization recently took a joint initiative on technical co-operation.

In order to facilitate the implementation of the TRIPS Agreement, in

particular by developing and least-developed country Members, developed country Members shall provide technical and financial co-operation. Such co-operation shall include assistance in the preparation of laws and regulations on the protection and enforcement of intellectual property rights and the prevention of their abuse. It shall also include support for the establishment or reinforcement of domestic offices and agencies, including the training of personnel. The European Community is one of the major providers of technical assistance in this area, in particular through the PHARE and TACTS (Technical Assistance to the Cis and Mongolia) programmes.

As far as future new WTO Members are concerned, the European Community and its major trading partners have requested such countries to implement their TRIPS obligations, as of the day of their accession, i.e. without a transitional period. This is not unreasonable, given that by then these countries win have known for several years the contents of the TRIPS Agreement and will have had several years to amend their legislation. To this end, the European Community co-operates with countries such as Russia and China.

II. THE TRIPS COUNCIL

A. REVIEW OF THE IMPLEMENTING LEGISLATION

An important feature of the WTO is that the monitoring of the operation of the Agreements and, in particular, of Members' compliance with their obligations, is done in a systematic way. This is also true for the TRIPS Agreement, which is monitored by the TRIPS Council, to which Members are obliged to submit their implementing legislation for examination.

In 1996 and 1997, the implementing legislation of all developed country Members was reviewed in four meetings of the TRIPS Council which each lasted for about a week. The examination of the legislation took place in the form of a staged process. On the basis of the notified legislation, Members submitted, in written form, questions relating to the legislation of other Members, who were requested to respond in writing before the TRIPS Council actually met. At the TRIPS Council itself, these questions and answers were debated orally. In certain cases, follow-up questions were raised.

The review encompassed the following developed country Members: the fifteen Member States of the European Community, the United States, Canada, Japan, Australia, New Zealand, Liechtenstein, Norway, Switzerland and Iceland. Also, South Africa took part in this exercise. In addition, the TRIPS Council reviewed the legislation of the following Eastern and Central European countries: Bulgaria, Hungary, the Czech Republic, Romania, Slovakia, Slovenia and Poland. As far as the developing country Members are concerned, Korea, Singapore and Hong Kong indicated that they would be open to participate in an advance review. Cyprus also took a similar position. Unfortunately, no agreement on "ground rules" for such a review could be reached in the TRIPS Council.

Overall, the review of the implementing legislation of the above-mentioned countries was clearly interesting but time-consuming, in particular for the European Commission, which coordinated the work relating to the legislation of the fifteen Member States and scrutinized, with the help of outside consultants,

the legislation of the other WTO Members under review. However, the exercise was well worth the effort, mainly for the following reasons:

- it raised in a significant way the awareness and understanding of WTO Members of the TRIPS obligations;
- it helped to identify shortcomings, and in many cases to remove them (others might be dealt with in the WTO dispute settlement procedure); and
- an important precedent has been set which is likely to serve as the standard for the upcoming review of the legislation of the developing country Members as of the year 2000, although some changes concerning the procedures might be necessary.

B. THE BUILT-IN AGENDA

6. *Geographical Indications*

On the basis of TRIPS, Article 24(2), work in this area has started with the preparation by the WTO Secretariat, with the input of WTO Members, of a checklist of questions in relation to the national regimes for the protection and enforcement of geographical indications, to which WTO Members have been asked to respond.

Article 23(4) of the TRIPS provides that, in order to facilitate the protection of geographical indications for wines (and spirits), negotiations shall be undertaken in the TRIPS Council on the establishment of a multilateral system of notification and registration. Preliminary work has been undertaken by the WTO Secretariat and preliminary discussions have taken place amongst WTO Members. These discussions have shown opposition between two groups of countries, of which one is led by the European Community and the other by the United States, supported by Canada, Australia and New Zealand. The Community has recently tabled a proposal for a multilateral register for geographical indications for wines and spirits. In general, the Community will seek to obtain in this area, a reduction and the eventual elimination of the exceptions contained in Articles 23 and 24 of the TRIPS.

2. *Patentability*

Article 27(3)(b) of the TRIPS provides for the review of the provisions of patentability of plants and animals other than micro-organisms, and the protection of plant varieties as of 1999. With respect to the question of patentability of plants and animals, the Community pharmaceutical and chemical industry generally has a vested interest in this matter. However, progress is likely to depend on more general and politically sensitive considerations such as the question of life forms or traditional knowledge. The Organisation for Economic Co-operation and Development is also working on this matter. Account also needs to be taken of the fact that the Community recently, and after lengthy debates, adopted the Directive on the legal protection of biotechnological inventions. It is uncertain whether the Community will be in a position to go further than what is provided in this Directive. With respect to the question of the

protection of plant varieties, account needs to be taken of developments in the International Union for the Protection of New Varieties of Plants (UPOV).

3. Review of the Implementation of the TRIPS Agreement

Article 71(l) provides that the TRIPS Council shall review implementation of the TRIPS Agreement as of 1 January 2000. Work on this provision has not yet started.

4. *Non-Violation Complaints*

Under Article 64(3) of the TRIPS Agreement the TRIPS Council is required to examine, during the period from 1 January 1995 to 1 January 2000, the scope and modalities for "non-violation" complaints, and to submit its recommendations to the Ministerial Conference for approval. Any decision of the Ministerial Conference to approve such recommendations or to extend the five-year period has to be made by consensus. During that five-year period, the rules on "non-violation" do not apply. The Community supports this automatic "re-inclusion" of such complaints into the dispute settlement procedures.

III. DISPUTE SETTLEMENT

The WTO Dispute Settlement system is gradually becoming a major instrument for providing further clarification of the TRIPS Agreement. Since the latter came into force, ten cases were launched of which seven were initiated by the United States and three by the EU Out of the procedures initiated by the United States, the Community and Member States were involved in five.

A. CASES IN WHICH THE COMMUNITY AND THE MEMBER STATES ACTED AS COMPLAINANTS

1. *EC v. India*

This case relates to the implementation of Article 70(8) and (9) of the TRIPS, i.e. the absence of formal systems permitting the filing of patent applications and providing exclusive marketing rights for such products in cases of the absence of patent protection for pharmaceutical and chemical products. The issues are identical to those of the panel request by the United States against India and which fully confirmed the US. position that India is not in compliance with its obligations under the TRIPS. The parties agreed that India would implement the panel findings by the end of April 1999, at the latest. The dispute settlement procedure launched by the Community/Member States is less advanced. The Community has requested the Dispute Settlement Body (22 September 1998) to adopt the panel report fully confirming the EC position.

2. *EC v. Canada*

This procedure concerns an alleged infringement of Articles 27(l) (patentable subject-matter), 28 (rights conferred) and 33 (term of protection) by

Canada on patent protection for pharmaceutical product inventions. Under Canadian patent legislation, a third party may, without the consent of the right-holder, use a patented invention to:

- carry out experiments and tests required to obtain marketing approval for the copy of an innovative medicine before the expiration of the relevant patent; and
- manufacture and stockpile patented products for a period of up to six months before the patent expiry, for sale immediately after expiry.

Several rounds of consultations were held but without success. The Community is considering requesting the establishment of a panel.

3. *EC v. Japan*

Like the United States, the Community requested consultations with Japan for an alleged violation of Article 14(6) of the TRIPS relating to the retroactive protection of sound recordings. Japan decided to amend its legislation. Therefore, the dispute settlement procedures were terminated before they reached the panel stage.

The Japanese legislation extended the protection back only to 1971 instead of to 1946 as required under the TRIPS Agreement. However, Europe's most successful sound recordings in pop and classical music by artists such as the Beatles, the Rolling Stones, Rod Stewart, Herbert von Karajan, Sir Georg Solti and Karl Boehm are now protected.

B. CASES IN WHICH THE COMMUNITY AND MEMBER STATES ARE INVOLVED AS DEFENDANTS

1. *The United States v. Portugal*

The United States alleged a shortcoming in Portugal's legislation relating to the term of protection of patents (Article 33 of the TRIPS). After consultations were held, Portugal decided to amend its legislation.

2. *The United States v. The Community/Ireland*

The United States complained about shortcomings in the areas of copyright, neighboring rights and the enforcement of such rights. Ireland agreed to speed up the legislative process on the overhaul of the copyright and related rights law and to address some of the immediate US. concerns in a break-out bill (e.g. criminal sanctions). In light of these developments, the United States postponed the decision to request the establishment of the panels against Ireland and the Community.

3. *The United States v. The Community/Sweden and Denmark*

In two separate proceedings, the United States requested consultations because of

alleged violations in Swedish and Danish enforcement legislation relating to TRIPS Article 50 as far as *inaudita altera parte* search 'orders are concerned. Several meetings have taken place and the cases are pending.

4. *The United States v. The Community/Greece*

The United States alleges that a significant number of television stations in Greece regularly broadcast motion pictures and television programmes without the authorization of the copyright owners. Furthermore, the United States complains that no effective enforcement of copyright takes place. Consultations are being held.

IV. NEED FOR A TRIPS II?

The Community favours the launching of a comprehensive WTO Round in January 2000. In WTO, there is growing support for this aim but agreement has not yet been reached. If such a launch takes place, consensus will also be required concerning the subject-matter to be included. The question, therefore, arises: should the TRIPS be included?

The TRIPS Agreement was not, of course, intended to be a static instrument but one capable of development. It is obvious that it does not solve all problems in the area of international rules on intellectual property matters and that new problems have emerged, e.g. as a result of new technologies or new ways of communication.

As already indicated, the TRIPS Council will hold a review of the TRIPS Agreement after five years, i.e. as of the year 2000, but is also empowered to review it at any time in the light of any relevant new developments which might warrant modification and amendment (Article 71, paragraph 1). However, the TRIPS Council has no competence to take decisions on these amendments. Generally, amendments to the TRIPS Agreement have to be adopted through a formal acceptance process by all WTO Members. In special cases, the TRIPS Agreement provides for a simplified procedure where amendments merely serve the purpose of adjusting higher levels of protection of intellectual property rights (Article 71, paragraph 2).

Apart from the items covered by the built-in agenda mentioned above, the TRIPS Agreement does not address the issues:

- which were left out of the negotiations in the Uruguay Round, such as the resale right for artists and the question of moral rights in the copyright area; the definition of the "inventive moment" ("first-to-file" or "first-to-invent"), the inclusion of UPOV, improved protection for textile designs and appellations of origin in the industrial rights area;
- where multilateral consensus building, notably in WIPO, made progress only recently, such as protection of copyright and related rights in the Information Society or the introduction of a *sui generis* protection for databases;

- which would further increase the level of protection by expanding beyond what has been agreed upon in the TRIPS Agreement or facilitate the processes of obtaining existing rights, such as the introduction of world-wide patents and trademarks, the extension of the term of patent protection or rules clarifying the protection of trademarks in relation to Internet Domain Names. In addition, strengthened enforcement mechanisms could add to improving intellectual property right protection.

Consultations with representatives of different categories of right-holders are still ongoing. It is clear, however, that transitional periods already agreed upon during the Uruguay Round negotiations are not negotiable in any new Round.

NOTES

An example of the delicate interplay between the WIPO-based mechanisms and those of the WTO was seen at the first session of the newly formed WIPO Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications in Geneva in July 1998. The question arose whether the Committee should give priority to work on the protection of geographical indications. Several delegations suggested that because such work was taking place within the framework of the TRIPS Council of the WTO, and "in order to avoid unnecessary duplication, the Standing Committee should not deal with the question." Other delegations were of the opinion that the Standing Committee should "give a high priority to work on geographical indications in parallel with the work of WTO in that field." Yet others said that "although WTO's work did not preclude the Standing Committee from dealing with that issue, the two Organizations should draw from each other's experience, and that cooperation between the two Organizations should be pursued." See Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications, First Session (July 13-17, 1998), Report prepared by the International Bureau ¶¶ 28-29 (WIPO Doc. __-__) (_____). It was decided that the International Bureau would continue monitoring developments in this field, and would continue preparations, as contemplated in the WIPO Program and Budget for 1998-99, for a world-wide symposium to be held in the biennium. *See id.* at ¶ 31.

B. F. PARALLEL IMPORTS/GRAY GOODS

Most intellectual property laws have developed the concept of exhaustion of rights (sometimes called the first sale doctrine in copyright law) that in some form is essential to ensure the free alienability of goods. Rights may be exhausted with respect to a particular good when that good is placed on the market by or with the consent of the rights owner. That is to say, the right owner may not assert its intellectual property rights to restrain the free transfer of those goods. Several questions are raised by the exhaustion doctrine, most significantly: (1) what is the geographic scope of exhaustion, *i.e.,* does it matter where the rights owner marketed the goods; (2) are rights exhausted where the goods are placed on the

market not by the rights owner but by a company in a form of economic relationship with the rights owner; and (3) are trademark (or other) rights revived, and capable of being asserted, with respect to goods that are placed on the market by the mark owner but then modified or repackaged without the mark owner's consent.

These issues are not new. But in the context of global trade they have assumed heightened significance. The free trade philosophy underpinning our present economic environment, the inclusion of intellectual property law within free trade agreements such as GATT, and the ongoing development of intellectual property laws by a supranational institution (such as the EU) committed to eradicating barriers to the free movement of goods within a multinational territory, has each brought the exhaustion issue to the forefront of current debate. The territorial nature of intellectual property rights clashes with an absolutist vision of free international trade in goods. The exhaustion doctrine mediates to some extent that clash, by determining whether and to what extent a right holder in country A can assert its rights and thus prevent the entry into country A of legitimate goods put on the market in country B. (These goods imported from country B are called "parallel imports" or "gray goods".) In this area, international agreements remain relatively sparse. Thus, after setting out briefly those provisions that exist, we review the approaches to exhaustion adopted in different national and regional jurisdictions, primarily in the United States and the European Union.

1. International Treaty Provisions

TRIPS AGREEMENT, Art. 6

For purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 above [national treatment and most-favored nation treatment] nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights.

WIPO COPYRIGHT TREATY, Art. 6(2)

Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the [right of distribution] applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.

Paul J. Heald, TRADEMARKS AND GEOGRAPHICAL INDICATIONS: EXPLORING THE CONTOURS OF THE TRIPS AGREEMENT,
29 VAND. J. TRANSNAT'L L. 638, 656-658 (1996)

. . . Presumably, the TRIPS Agreement does not require a member to reject or accept the importation of legitimately trademarked goods that are intended to be sold without the permission of the trademark's local owner. Whether this stance is consistent with the agreement's stated goal to advance "the transfer and dissemination of technology, to the mutual advantage of producers and users . . . in a manner conducive to social and economic welfare" is highly debatable. . . .

. . .

The TRIPS Agreement [thus] specifically sidesteps the issue of the propriety of importing gray market goods. In most circumstances, gray market goods are legitimately trademarked genuine goods bought in nation A and transported for sale to nation B without the consent of the trademark owner in nation B. For example, large U.S. merchandisers frequently buy consumer goods in Asia and import them for resale in their domestic stores without the permission of the trademark's U.S. owner. This generally creates price competition with limited or exclusive dealerships in the United States supported by the U.S. trademark owner. In the United States, the legality of such imports depends on the nature of the relationship between the domestic trademark owner and the foreign manufacturer. Although the extent to which a gray market should be fostered is debated in many nations, the negotiators of the GATT Uruguay Round should have been able to find common ground regarding genuine gray market goods.[**********]

Within any particular nation, one can understand why a debate over the legitimacy of gray market goods may rage. In the United States, for example, consumers benefit from the downward pressure on prices caused by an active gray market. Some individuals worry, however, that U.S. corporate trademark owners, and therefore their employees and stockholders, will suffer when they are unable to control the local availability and prices of goods manufactured for them overseas.[**********] Within a nation, the empirical question of whether wealth is increased or decreased by the gray market may be difficult to answer. From a global perspective, however, a strong argument can be made that the free movement of legitimately trademarked goods is supported by GATT principles. The philosophy of the GATT is premised on the notion that global wealth and prosperity is tied to the free movement of goods. Tariffs, the quintessential impediment to free trade, are suspect because they slow the flow of goods and generally result in diminished competition, higher prices, and lower quality goods. Particular tariffs may benefit a particular country but, in theory, the global community as a whole is better off without them.

A legal rule that prohibits the importation of legitimately trademarked goods looks much like a tariff; it creates a barrier at the border that certain sorts of goods cannot cross. Given the nature of gray market goods, the barrier is difficult to justify. By definition, the goods are not counterfeit; the trademarks they bear are affixed with the authorization of the trademark owner. If for some reason the goods are defective, noxious, dangerous, or likely to cause confusion in the

market, a ban on importation is easy to justify. The vast majority of such goods, however, pose no threat to consumers. Gray market Nikon cameras sold by New York City mail order houses are real Nikons, identical to Nikons sold by authorized Nikon dealerships. No consumer protection rationale can justify a ban on these sorts of legitimately trademarked goods.

One can understand why Nikon management, employees, and stockholders might be upset by the price competition created by New York mail order houses, but they are hard-pressed to offer a rationale for banning imports that is consistent with GATT principles. Their essential claim is that they will lose profits if the government does not stop certain goods at the border. That may be true, but General Motors and Ford can make exactly the same claim: "We will lose profits if the government does not stop Hondas at the border, or impose a high tariff on Hondas." Protecting the profit margin of certain producers by stopping goods at the border is precisely the sort of activity that the GATT was meant to discourage. One can only hope that future negotiations will consider mandating the free movement of all legitimately trademarked goods.

PRELIMINARY QUESTION

Before we consider the case law in different jurisdictions, ask yourself whether we should permit intellectual property owners to restrain parallel imports? What legitimate interests of the intellectual property owner are being protected? Do consumers benefit from parallel imports? In all circumstances? If not, what considerations should determine whether parallel imports should be permitted? What changes in global marketing, whether those now occurring or those that might soon occur, might alter the importance of the gray market? How does this affect your analysis of the appropriate approach to parallel importing?

2. Treatment Under U.S. Law

a. The Tariff Act and the Lanham Act

A. BOURJOIS & CO., INC. v. KATZEL

260 U.S. 689 (1923)
Mr. Justice Holmes delivered the opinion of the Court.

This is a bill to restrain the infringement of the trade marks "Java" and "Bourjois" registered in the Patent Office of the United States. A preliminary injunction was granted by the District Court, but the order was reversed by the Circuit Court of Appeals, one Judge dissenting. A writ of certiorari was granted by this Court. In 1913 A. Bourjois & Cie., E. Wertheimer & Cie., Successeurs, doing business in France and also in the United States, sold to the plaintiff for a large sum their business in the United States, with their good will and their trade marks registered in the Patent Office. The latter related particularly to face powder, and included the above words. The plaintiff since its purchase has registered them again and goes on with the business that it bought, using substantially the same form of box and label as its predecessors and importing its face powder from France. It uses care in selecting colors suitable for the

American market, in packing and in keeping up the standard, and has spent much money in advertising, etc., so that the business has grown very great and the labels have come to be understood by the public here as meaning goods coming from the plaintiff. The boxes have upon their backs: "Trade Marks Reg. U.S. Pat. Off. Made in France—Packed in the U.S.A. by A. Bourjois & Co., Inc., of New York, Succ'rs. in the U.S. to A. Bourjois & Cie., and E. Wertheimer & Cie."

The defendant, finding that the rate of exchange enabled her to do so at a profit, bought a large quantity of the same powder in France and is selling it here in the French boxes which closely resemble those used by the plaintiff except that they have not the last quoted statement on the backs, and that the label reads "Poudre de Riz de Java," whereas the plaintiff has found it advisable to strike out the suggestion of rice powder and has "Poudre Java" instead. There is no question that the defendant infringes the plaintiff's rights unless the fact that her boxes and powder are the genuine product of the French concern gives her a right to sell them in the present form.

We are of opinion that the plaintiff's rights are infringed. After the sale the French manufacturers could not have come to the United States and have used their old marks in competition with the plaintiff. That plainly follows from the statute authorizing assignments. Act of February 20, 1905, § 10. If for the purpose of evading the effect of the transfer, it had arranged with the defendant that she should sell with the old label, we suppose that no one would doubt that the contrivance must fail. There is no such conspiracy here, but, apart from the opening of a door to one, the vendors could not convey their goods free from the restriction to which the vendors were subject. Ownership of the goods does not carry the right to sell them with a specific mark. It does not necessarily carry the right to sell them at all in a given place. If the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. Boesch v. Graff, 133 U.S. 697. The monopoly in that case is more extensive, but we see no sufficient reason for holding that the monopoly of a trade mark, so far as it goes, is less complete. It deals with a delicate matter that may be of great value but that easily is destroyed, and therefore should be protected with corresponding care. It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought. [cit]. It stakes the reputation of the plaintiff upon the character of the goods. [cit]. The injunction granted by the District Court was proper under sections 17 and 19 of the Trade Mark Act.

Decree of Circuit Court of Appeals reversed.

K MART CORP. v. CARTIER, INC.

486 U.S. 281 (1988)

KENNEDY, J. delivered the opinion of the Court with respect to Parts I, II-A, and II-C, and an opinion with respect to Part II-B, in which WHITE, J., joined.

A gray-market good is a foreign-manufactured good, bearing a valid United States trademark, that is imported without the consent of the United States trademark holder. These cases present the issue whether the Secretary of the Treasury's regulation permitting the importation of certain gray-market goods, [cit], is a reasonable agency interpretation of § 526 of the Tariff Act of 1930 (1930 Tariff Act), as amended, 19 U.S.C. § 1526.

I

A

The gray market arises in any of three general contexts. The prototypical gray-market victim (case 1) is a domestic firm that purchases from an independent foreign firm the rights to register and use the latter's trademark as a United States trademark and to sell its foreign-manufactured products here. Especially where the foreign firm has already registered the trademark in the United States or where the product has already earned a reputation for quality, the right to use that trademark can be very valuable. If the foreign manufacturer could import the trademarked goods and distribute them here, despite having sold the trademark to a domestic firm, the domestic firm would be forced into sharp intrabrand competition involving the very trademark it purchased. Similar intrabrand competition could arise if the foreign manufacturer markets its wares outside the United States, as is often the case, and a third party who purchases them abroad could legally import them. In either event, the parallel importation, if permitted to proceed, would create a gray market that could jeopardize the trademark holder's investment.

The second context (case 2) is a situation in which a domestic firm registers the United States trademark for goods that are manufactured abroad by an affiliated manufacturer. In its most common variation (case 2a), a foreign firm wishes to control distribution of its wares in this country by incorporating a subsidiary here. The subsidiary then registers under its own name (or the manufacturer assigns to the subsidiary's name) a United States trademark that is identical to its parent's foreign trademark. The parallel importation by a third party who buys the goods abroad (or conceivably even by the affiliated foreign manufacturer itself) creates a gray market. Two other variations on this theme occur when an American-based firm establishes abroad a manufacturing subsidiary corporation (case 2b) or its own unincorporated manufacturing division (case 2c) to produce its United States trademarked goods, and then imports them for domestic distribution. If the trademark holder or its foreign subsidiary sells the trademarked goods abroad, the parallel importation of the goods competes on the gray market with the holder's domestic sales.

In the third context (case 3), the domestic holder of a United States trademark *authorizes* an independent foreign manufacturer to use it. Usually the holder sells to the foreign manufacturer an exclusive right to use the trademark in a particular foreign location, but conditions the right on the foreign manufacturer's promise not to import its trademarked goods into the United States. Once again, if the foreign manufacturer or a third party imports into the United States, the foreign-manufactured goods will compete on the gray market with the holder's

domestic goods.

B

Until 1922, the Federal Government did not regulate the importation of gray-market goods, not even to protect the investment of an independent purchaser of a foreign trademark, and not even in the extreme case where the independent foreign manufacturer breached its agreement to refrain from direct competition with the purchaser. That year, however, Congress was spurred to action by a Court of Appeals decision declining to enjoin the parallel of goods bearing a trademark that (as in case 1) a domestic company had purchased from an independent foreign manufacturer at a premium. *See* A. Bourjois & Co. v. Katzel, 275 F. 539 (CA2 1921), *rev'd*, 260 U.S. 689 (1923).

In an immediate response to *Katzel*, Congress enacted section 526 of the Tariff Act of 1922. That provision, later reenacted in identical form as section 526 of the 1930 Tariff Act, 19 U. S. C. § 1526, prohibits importing

> into the United States any merchandise of foreign manufacture if such merchandise. . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States . . ., unless written consent of the owner of such trademark is produced at the time of making entry. 19 U. S. C. § 1526(a).

The regulations implementing section 526 for the past 50 years have not applied the prohibition to all gray-market goods. The Customs Service regulation now in force provides generally that "[f]oreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations." 19 CFR § 133.21(b) (1987). But the regulation furnishes a "common-control" exception from the ban, permitting the entry of gray-market goods manufactured abroad by the trademark owner or its affiliate:

> (c) *Restrictions not applicable*. The restrictions . . . do not apply to imported articles when:
>
> > (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity; [or]
> >
> > (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control. . . .

The Customs Service regulation further provides an "authorized-use" exception, which permits importation of gray-market goods where:

> (3) [t]he articles of foreign manufacture bear a recorded

trademark or trade name applied under authorization of the U.S. owner . . . . "

19 CFR § 133.21(c) (1987).

Respondents, an association of United States trademark holders and two of its members, brought suit in Federal District Court in February 1984, seeking both a declaration that the Customs Service Regulation, 19 CFR §§ 133.21(c)(l)-(3) (1987), is invalid and an injunction against its enforcement. Coalition to Preserve the Integrity of American Trademarks v. United States, 598 F. Supp. 844 (DC 1984). They asserted that the common-control and authorized-use exceptions are inconsistent with section 526 of the 1930 Tariff Act.[***] Petitioners K Mart and 47th Street Photo intervened as defendants.

. . .

A majority of this Court now holds that the common-control exception of the Customs Service regulation, 19 CFR §§ 133.21(c)(l)-(2) (1987), is consistent with section 526. A different majority, however, holds that the authorized-use exception, 19 CFR § 133.21(c)(3) (1987), is inconsistent with section 526. . . .

II

A

In determining whether a challenged regulation is valid, a reviewing court must first determine if the regulation is consistent with the language of the statute. "If the statute is clear and unambiguous 'that is the end of the matter, for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress.' . . . The traditional deference courts pay to agency interpretation is not to be applied to alter the clearly expressed intent of Congress." Board of Governors, FRS v. Dimension Financial Corp., 474 U.S. 361, 368 (1986), quoting Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 842-843 (1984). . . . If the statute is silent or ambiguous with respect to the specific issue addressed by the regulation, the question becomes whether the agency regulation is a permissible construction of the statute. [cit]. If the agency regulation is not in conflict with the plain language of the statute, a reviewing court must give deference to the agency's interpretation of the statute. [cit].

II

B

Following this analysis, I conclude that subsections (c)(1) and (c)(2) of the Customs Service regulation are permissible constructions designed to resolve statutory ambiguities. All Members of the Court are in agreement that the agency may interpret the statute to bar importation of gray-market goods in what we have denoted case 1 and to permit the imports under case 2a. . . . As these writings state, "owned by" is sufficiently ambiguous, in the context of the statute, that it applies to situations involving a foreign parent, which is case 2a. This ambiguity arises from the inability to discern, from the statutory language, which of the two entities involved in case 2a can be said to "own" the United States trademark if, as in some instances, the domestic subsidiary is wholly owned by its foreign parent.

A further statutory ambiguity contained in the phrase "merchandise of foreign manufacture," suffices to sustain the regulations as they apply to cases 2b and 2c. This ambiguity parallels that of "owned by," which sustained case 2a, because it is possible to interpret "merchandise of foreign manufacture" to mean (1) goods manufactured in a foreign country, (2) goods manufactured by a foreign company, or (3) goods manufactured in a foreign country by a foreign company. Given the imprecision in the statute, the agency is entitled to choose any reasonable definition and to interpret the statute to say that goods manufactured by a foreign subsidiary or division of a domestic company are not goods "of foreign manufacture."[****] I disagree with Justice Scalia's reasons for declining to recognize this ambiguity. . . I also disagree that our disposition necessarily will engender either enforcement problems for the Customs Service or problems we are unaware of arising out of our commercial treaty commitments to foreign countries. Initially, it is reasonable to think that any such problems or objections would have arisen before now since it is the current interpretation of the regulations we are sustaining. Second, I believe that the regulation speaks to the hypothetical situation Justice Scalia poses, and that the firm with the United States trademark could keep out "gray-market imports manufactured abroad by the other American firms," because the regulation allows a company justifiably invoking the protection of the statute to bar the importation of goods of foreign or domestic manufacture. 19 CFR § 133.21 (a) (1987). In this instance, the domestic firm with the United States trademark could invoke the protection of the statute (case 1) and bar the importation of the other domestic firm's product manufactured abroad even though our interpretation of the phrase "of foreign manufacture" would characterize these latter goods to be of domestic manufacture.

II
C(1)

Subsection (c)(3) of the regulation, however, cannot stand. The ambiguous statutory phrases that we have already dscussed, "owned by" and "merchandise of foreign manufacture," are irrelevant to the proscription contained in subsection (3) of the regulation. This subsection of the regulation denies a domestic trademark holder the power to prohibit the importation of goods made by an independent foreign manufacturer where the domestic trademark holder has authorized the foreign manufacturer to use the trademark. Under no reasonable construction of the statutory language can goods made in a foreign country by an independent foreign manufacturer be removed from the purview of the statute.

. . .

JUSTICE BRENNAN, with whom Justice Marshall and Justice Stevens join, and with whom Justice White joins as to Part IV, concurring in part and dissenting in part.

. . .

I
A

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The most blatant hint that Congress did not intend to extend § 526's protection to affiliates of foreign manufacturers (case 2) is the provision's protectionist, almost jingoist, flavor. Its structure bespeaks an intent, characteristic of the times, to protect only domestic interests. A foreign

manufacturer that imports its trademarked products into the United States cannot invoke § 526 to prevent third parties from competing in the domestic market by buying the trademarked goods abroad and importing them here: The trademark is not "registered in the Patent and Trademark Office." The same manufacturer cannot protect itself against parallel importation merely by registering its trademark in the United States: It is not "a person domiciled in the United States." Nor can the manufacturer insulate itself by hiring a United States domiciliary to register the trademark: The owner is not "organized within . . . the United States." For the same reason, it will not even suffice for the foreign manufacturer to incorporate a subsidiary here to register the trademark on the parent's behalf, if the foreign parent still owns the trademark.

The barriers that Congress erected seem calculated to serve no purpose other than to reserve exclusively to domestic, not foreign, interests the extraordinary protection that § 526 provides. But they are fragile barriers indeed if a foreign manufacturer might bypass them by the simple device of incorporating a shell domestic subsidiary and transferring to it a single asset—the United States trademark. Such a reading of § 526 seems entirely at odds with the protectionist sentiment that inspired the provision. If a foreign manufacturer could insulate itself so easily from the competition of parallel imports, much of § 526's limiting language would be pointless.

I

B

The language of § 526 can reasonably be read, as the Customs Service has, to avoid such an anomaly. Section 526 defines neither "owned by" nor "of foreign manufacture," and both phrases admit of considerable ambiguity when applied to affiliates of foreign manufacturers. More specifically, in each of the disputed gray-market cases involving a domestic affiliate of a foreign manufacturer (case 2), it cannot be confidently discerned either which entity owns the trademark or whether the goods in question are "of foreign manufacture."

. . .

The same ambiguity does not, of course, infect cases 2b and 2c. A domestic parent plainly owns the trademark registered in its name, whether or not it also owns a manufacturing subsidiary (case 2b) or division (case 2c) abroad. Nevertheless, § 526 does not unambiguously cover cases 2b and 2c because it is unclear whether merchandise manufactured abroad by a division or a subsidiary of a domestic firm is "merchandise of foreign manufacture." That phrase could readily be interpreted to mean either "merchandise manufactured in a *foreign country* " or "merchandise manufactured by a *foreigner*." Under the former definition, the merchandise manufactured abroad in cases 2b and 2c would fall within § 526's ban. Under the latter definition, however, the coverage is not as clear. Surely a domestic firm that establishes a manufacturing facility abroad (case 2c) is not in any sense a foreigner, and it is at the very least reasonable to view as "American" the foreign subsidiary of a domestic firm.

II

Even if the language of § 526 clearly covered all affiliates of foreign manufacturers, "[i]t is a 'familiar rule, that a thing may be within the letter of the statute and yet not within the statute, because not within its spirit, nor within the intention of its makers.'" It is therefore appropriate to turn to our other "traditional tools of statutory construction" for clues of congressional intent. [cit]. The purpose and legislative history of § 526 confirm that if Congress had any intent as to the application of § 526 to affiliates of foreign manufacturers, it was that they ought not enjoy § 526's protection. There is, admittedly, evidence suggesting that some legislators might have understood § 526 otherwise. That evidence, however, is slim, ambiguous, and interspersed among more—and more convincing—evidence that Congress had a contrary intent.

A

Section 526 can be fully understood only in the context of the controversial judicial opinion that spawned it [Bourjois & Co. v. Katzel (2d Cir. 1921), *rev'd* 260 U.S. 689 (1923)]. . . . [There], Bourjois was a "prototypical gray-market victim"—a United States trademark holder that purchased its trademark rights, at arm's length and at substantial cost, from an unaffiliated foreign producer.

Despite the apparent unfairness of the competition, the Court of Appeals for the Second Circuit declined to enjoin the encroachment on the trademark holder's newly purchased market. The court could find no trademark violation so long as the competitor's French labels accurately identified the product's manufacturer. It adhered to the then prevailing "universality" theory of trademark law, a view that it had espoused for several years. [cit]. Under that view, trademarks do not confer on the owner property interests or monopoly power over intrabrand competition. Rather, they merely protect the public from deception by indicating "the origin of the goods they mark." [cit].

While Bourjois, the prototypical (case 1) gray-market victim, evoked little sympathy from the Court of Appeals, it would have been a far less sympathetic plaintiff had it not bargained and paid so dearly for the Java trademark and distribution rights. And the gray-market encroachment on the Java market would have been considerably less troubling had Bourjois had control over the foreign manufacturer's import conduct or over its sales abroad to third parties who might import; it would essentially have been seeking to protect itself from its own competition.

A comparison of Bourjois to the parties seeking section 526's protection in this litigation aptly illustrates the profound difference between the equities presented by the prototypical gray-market victim and those implicated in case 2. First, the United States trademark holder that, like Bourjois, has purchased trademark rights at arm's length from an independent manufacturer stands to lose the full benefit of its bargain because of gray-market interference. In contrast, a United States trademark holder that acquires identical rights from an affiliate (case 2a) or creates identical rights itself and permits them to be used abroad by an affiliate (cases 2b and 2c) does not have the same sort of investment at stake.

Second, without section 526, the independent trademark purchaser has no direct control over the importation of competing goods, much less over the

manufacturer's sale to third parties abroad. In contrast, if the gray market harms a United States trademark holder in case 2a, 2b, or 2c, that firm and its foreign affiliate (whether a parent, subsidiary, or division) can respond with a panoply of options that are unavailable to the independent purchaser of a foreign trademark. They could, for example, jointly decide in their mutual best interests that the manufacturer (1) should not import directly to any domestic purchaser other than its affiliate; (2) should, if legal, impose a restriction against resale (or against resale in the United States) as a condition on its sales abroad to potential parallel importers; or (3) should curtail sales abroad entirely.

These differences furnish perfectly rational reasons that Congress might have intended to distinguish between a domestic firm that purchases trademark rights from an independent foreign firm and one that either acquires identical rights from an affiliated foreign firm or develops identical rights and permits a manufacturing subsidiary or division to use them abroad.

II
B

There is no dispute that the perceived inequity in case 1, as exemplified by *Katzel*, was the "major stimulus" for the enactment of section 526. . . . United States trademark holders, many of which had purchased foreign trademarks from unrelated foreign corporations, demanded an immediate legislative response to *Katzel.* Congress responded with section 526 of the 1922 Tariff Act, without even waiting for this Court to reverse the Second Circuit (which it ultimately did three months later). The hastily drafted provision was introduced as a "midnight amendments on the floor of the Senate, [cit], and allotted a miserly 10 minutes of debate, in the context of a debate on a comprehensive revision of tariff (not trademark) law. . . .

. . .

The sparse legislative history confirms that Congress' sole goal was to overrule Katzel. Section 526's sponsors and proponents categorically rejected any suggestion that its effect might be broader than necessary to overrule *Katzel* on its facts. . . .

. . .

II
C

The sliver of legislative history on which the Court of Appeals relied most heavily in support of its reading of section 526 was the following statement in the Conference Report:

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trade-mark, in order to

protect the American manufacturer or producer. . . . 11 H. R. Conf. Rep. No. 1223, 67th Cong., 2d Sess., at 158.

The Court of Appeals read the statement that section 526 "makes *such* importation unlawful" as meaning that section 526 would prevent the importation of *any* merchandise bearing a United States trademark, so long as the imported merchandise is genuine and there is no fraud on the public, even though the holder of the United States trademark is affiliated with the manufacturer. That is, concededly, a plausible reading of that brief passage. [cit]. More plausible, though, is that the first sentence quoted above merely described the well-established legal theory that compelled the result in *Katzel*, and the second sentence, declaring the unlawfulness of "such importation" referred to the type of importation at issue in *Katzel—i.e.*, parallel importation of goods bearing a United States trademark *purchased* by an *independent* domestic company from a foreign manufacturer. Only if the second sentence were so limited would section 526 "protect the American manufacturer or producer," as the Conference Report itself says it does, for (as this case aptly demonstrates) the alternative would constitute Government-enforced insulation of the United States markets of foreign corporations.

. . .

In sum, the legislative history and purpose of section 526 confirm, and Justice Scalia does not dispute, that if Congress had any particular intent with respect to the application of section 526 to trademark owners affiliated with foreign manufacturers, it was to exclude them from its shield. At the very least, that interpretation—which forms the basis of the Customs Service regulation—is reasonable. [cit]. . .

. . .

[In Part IV of his opinion Justice Brennan dissented from the Court's conclusion that the authorized use exception was inconsistent with section 526, finding that the application of Section 526 to Case 3 was also ambiguous, entitling Customs' interpretation to deference.]

Justice SCALIA, with whom the Chief Justice, Justice Blackmun, and Justice O'Connor join, concurring in part and dissenting in part.

I agree with the Court's analytic approach to this matter, and with its conclusion that subsection (c)(3) of the regulation, is not a permissible construction of § 526(a) of the Tariff Act of 1930. I therefore join Parts I, II-A, and II-C of the Court's opinion. In my view, however, subsections (c)(1) and (c)(2) of the regulation are also in conflict with the clear language of § 526(a). I therefore decline to join Parts II-B and III of Justice Kennedy's opinion and dissent from that part of the judgment upholding subsections (c)(1) and (c)(2).

I

. . .

Five Members of the Court (hereinafter referred to as "the majority") assert . . .that the regulation's treatment of situations 2b and 2c is attributable to the resolution of yet another ambiguity in § 526(a). The statute excludes only

merchandise "of foreign manufacture," which the majority says might mean "manufactured by a foreigner" rather than "manufactured in a foreign country." I think not. . . .

In the particular context of the present statute . . . the majority's suggested interpretation is not merely unusual but inconceivable, since it would have the effect of eliminating § 526(a)'s protection for some trademark holders in case 1—which contains what the Court describes as the "prototypical" gray-market victims. Not uncommonly a foreign trademark owner licenses an American firm to use its trademark in the United States and also licenses one or more other American firms to use the trademark in other countries. In this situation, the firm with the United States license could not keep out gray-market imports manufactured abroad by the other American firms, since, under the majority's interpretation, the goods would not be "of foreign manufacture." Thus, to save the regulation, the majority proposes an interpretation that undermines even the core of the statute.*

. . .

If it were, as Justice Kennedy believes, "the current interpretation of the regulations we are sustaining," one would expect there to be in place some mechanism that enables the Customs Service to identify goods that are not only manufactured abroad but also (as the majority's interpretation requires) manufactured by foreigners. Acquiring this knowledge cannot be easy, since the importer of merchandise will often not know the manufacturer's identity, much less its corporate pedigree. International corporate ownership, not a matter of public record, is often a closely guarded secret. Yet although there is in place a regulation requiring the country of origin (*i.e.*, whether "manufactured abroad") to be plainly indicated on all imports, see 19 CFR §§ 134.0-134.55 (1987), there is none requiring the nationality of the manufacturer to be stated. After today's decision, of course, the Customs Service, if it would not rather amend its regulations, will presumably have to devise means to enforce what we say it has been enforcing.

Which suggests one of the most important reasons we defer to an agency's construction of a statute: its expert knowledge of the interpretation's practical consequences. Since the Government has never advocated the interpretation proposed by the majority (although these cases have been argued twice), and since we did not so much as ask for additional briefing after conceiving of the novel interpretation, we cannot be sure what other difficulties it will create. It might, for example, conflict with mutually accepted understandings of our commercial treaty commitments to foreign countries, such as the provision in our Treaty of Friendship, Commerce and Navigation with the Federal Republic of Germany, October 29, 1954, that "[n]ationals and companies of either Party shall be accorded national treatment and most-favored-nation treatment by the other Party with respect to all matters relating to importation and exportation." [cit]. I doubt, in any case, that our trade partners will look favorably upon a regulation which, as now interpreted, treats goods manufactured by American companies on their soil more favorably than goods manufactured there by their own nationals.

. . .

———————————————

Weil Ceramics and Glass, Inc. v. Bernard Dash, 878 F.2d 659 (3d. Cir. 1989). The facts in this case were closest to what the Supreme Court in *K Mart* called a Case 2a scenario: the mark owner (Weil Ceramics), the exclusive U.S. distributor of Lladro porcelain, was a wholly owned subsidiary of the foreign manufacturer of the porcelain. Weil owned the U.S. registration for the mark under assignment from the parent company manufacturer. The importer (Dash) had obtained the porcelain in Spain from distributors of the parent company and sold it in the United States without the consent of Weil. Weil argued that importation could be barred under Section 42 of the Lanham Act—not addressed in *K Mart*—and that Section 32 of that Act permitted recovery of damages for infringement independently of the question of importation. The Third Circuit concluded that the relationship that Weil had with the foreign manufacturer (Lladro) prevented relief under either section of the Lanham Act.

The plaintiff had relied heavily upon *Katzel* to make its argument. But the Third Circuit declined to read *Katzel* as endorsing a broad territoriality theory applicable to every instance in which a domestic company acquires the United States trademark for a foreign manufactured good. In particular, the court noted that in *Katzel* Bourjois was "completely independent from the foreign manufacturer and had entered into an arms-length exchange to acquire the rights to the trademark with the clear intent that the foreign manufacturer would not market the trademarked good in the United States." Bourjois, however, had no control over the goods that the foreign manufacturer sold abroad and which were imported into the United States. Here, Weil was not independent of the foreign manufacturer: "even if it lost some share of its United States market to the importer, it nonetheless benefitted from the profits it received as part of the corporate entity from which the importer purchased the goods abroad." And the Third Circuit also noted that if those profits were less than Weil might make from a U.S. sale, various self-help mechanisms were available.

Instead, the Court limited relief under either section of the Lanham Act to circumstances where the domestic trademark holder is injured by "the distribution of like goods, which bear facsimile marks, that result in confusion to consumers or detriment to the goodwill developed by the trademark holder in the trademarked goods." But here the imported product was identical to the porcelain that Weil distributed—it was a genuine good—and thus no actionable confusion existed.

Judge Becker agreed with the result but issued a lengthy concurring opinion taking issue with the majority's reading of both *Katzel* and *K Mart*. Judge Becker criticized the majority for "reading *Katzel* in one sense too broadly (implying that it should apply across the board, whenever the independent markholder is the victim of parallel importation), and in another sense too narrowly (insofar as . . . suggesting that *Katzel* can only be applied where the foreign manufacturer is wholly independent of the domestic markholder). . . . *Katzel* is an example of a court sitting in equity at work, not a blanket change of trademark law." Thus, Judge Becker could find no support in trademark law for the proposition that affiliated trademark owners receive lesser protections than nonaffiliated trademark owners. He suggested that "in a case in which two affiliated companies have become over the years increasingly independent, such that the two entities are essentially independent, there may be reason for the court to exercise its equitable powers to protect the good will and investment in the

trademark that the American company has individually developed over the years. Alternatively, an equitable remedy may also be called for in the case of a foreign company that does not wholly own its American subsidiary, for example, where the foreign affiliated company only owns ten percent of the American markholder's company. . . . *Katzel* does not militate against the conclusion that an affiliated company may receive trademark protection pursuant to equity."

Judge Becker argued more particularly that the territoriality theory of trademarks still governed analysis of the issue. Having read *Katzel* as merely the exercise of power by a court sitting in equity, however, Judge Becker declined to rely solely on that case as support for his approval of the territoriality theory. Instead, he suggested, "[t]he place to look for the answer to the question whether the United States recognizes the territoriality theory in the context of international trademark rights is not domestic trademark law, but rather international law, as expressed in treaties. . . . [T]he United States is a signatory and member of the Paris Convention . . ., which carries the force of law and recognizes that trademark rights are territorial. The Convention states that

> A mark duly registered in a country of the Union shall be regarded as independent of marks registered in other countries of the Union, including the country of origin. Paris Convention, Article 6(3).

The Paris Convention is the law in the United States by virtue of Article VI of the Constitution and is explicitly implemented by the Lanham Act in section 44(b). [cit]. Therefore, United States trademark law expressly recognizes trademark rights as territorial. I must conclude therefore that even though the Lladro trademark is owned by others outside the United States, Weil may own the American trademark in Lladro products in the United States, and that those trademark rights are separate from whatever trademark rights the Lladro parents own in other countries."

Having concluded that trademarks are still territorial, Judge Becker reasoned that universal exhaustion of rights would make no sense. "The doctrine of exhaustion developed as a corollary to the universality theory. Under this doctrine, once the markholder has sold an item, the subsequent sale of that item cannot serve as the basis for an infringement suit. The relevant issue for this case with respect to exhaustion is whether the doctrine of exhaustion is meant to apply only within the borders of a sovereign or whether it applies universally, such that a sale in one country prevents an infringement suit in another. . . . The latter position would make no sense in the context of the territoriality of trademarks. 'In international trade, a trademark symbolizes the geographically distinct goodwill of the domestic owner of the mark.' [cit]. If every time a foreign manufacturer placed its product on the market, the trademark rights were universally exhausted, then the territoriality theory of trademark rights would lose most of its force and the right to control the trademark of an internationally available good in a given country would not be of much value. In fact, if the exhaustion theory were viable, that would mean that once a manufacturer sold the product to the domestic markholder, the product's trademark rights were exhausted and the domestic markholder could not assert his rights under the trademark laws. That makes no

sense where trademark rights may rest in non-manufacturers and the Lanham Act recognizes the validity of the assignment of trademarks."

Instead, said Judge Becker "the more coherent way to view exhaustion in the context of the territoriality theory is to view it as applying individually to each markholder such that a markholder only exhausts its own trademark rights upon sale of the item, and not the trademark rights of other markholders in other countries. [cit]. Thus, even if the exhaustion theory is valid within the borders of a sovereignty, it cannot be valid with respect to all sales of trademarked goods in light of the viability of the territoriality theory in international trademark law."

Judge Becker also placed less reliance than the majority on *K Mart* (a Tariff Act case) as a guide to interpreting Lanham Act claims. In explaining why the *K Mart* decision was not controlling in a Lanham Act claim, Judge Becker highlighted the difference between the Tariff Act claim resolved in that case and the trademark opinion of the Court in *Katzel.* "Even though both the Congress and the Supreme Court responded negatively to the Court of Appeals' decision in *Katzel*, their responses are fundamentally different. They are different because the two branches' powers are different. Legislation, by its nature, provides a blanket rule to be applied to certain specified circumstances. Section 526 of the Tariff Act permits the party in the *Katzel* situation to benefit from a blanket exclusion of parallel imports. The Supreme Court decision provides for equitable remedies in the face of inequities that can only be addressed on a case-by-case basis. In *Katzel*, the Supreme Court provided a second weapon over and above the statutory weapon for the trademark holder harmed by parallel importation. . . . However, just as there is no reason to believe that the Supreme Court meant for its equitable remedy to apply to every situation in which a domestic markholder is independent of a foreign manufacturer, there is no reason to believe that the Supreme Court in *Katzel* intended to preclude equitable remedies for domestic markholders who are affiliated with foreign manufacturers. . . . To put the distinction between *Katzel* and *K Mart* another way, the trigger for the statutory customs protection described in *K Mart* is independence of domestic and foreign entities. The trigger for the judicial trademark remedy based on *Katzel* is the presence of inequities in a parallel importation context. Thus, I differ with the majority's use of *K Mart* as a yardstick by which to measure the reach of *Katzel* and therefore the scope of section 32."

Contrary to the majority, Judge Becker thus held that the sale of genuine goods sold under a genuine mark after purchase abroad might be actionable. He argued that "the authority for the proposition that genuine goods come under the purview of the Lanham Act can be found in part in the fact that trademark protection is no longer based solely or even primarily on the source of origin theory of trademark. Early in the history of trademark law, one of the sole bases for protection of trademarks was the protection of the public against confusion as to its source of origin. In other words, trademarks were valuable, because they identified the owner of the good. However, as the law developed, the trademark was no longer merely the source of information with respect to ownership, but rather the public came to believe that the trademark represented a certain level of product quality arising from one source. [cit].

As this Court stated in *Premier Dental*, one need not manufacture a product to possess goodwill in it. In particular, it has been consistently held that if

an exclusive distributor is known as the exclusive domestic source and as the one who stands behind the product in this country, it may own and enforce the trademark.

Therefore, a trademark is not protected necessarily because it signifies a source of manufacturing origin. If a trademark signifies a level of quality and not necessarily an identifiable source of origin, then trademark rights need not rest on whether the public can identify the manufacturer of the product, as the majority opinion implicitly suggests. Rather, the rights rest on whether the public identifies a particular level of quality when it sees a trademark on a product. Therefore, the markholder need not be the manufacturer, but may have trademark rights in the manufacturer's goods distinct, *i.e.*, in different countries, from those the manufacturer retains. A fortiori, a genuine good marked with a genuine mark will have different legal consequences, depending on the country. And there may be a different entity in each country with the right to control those goods with that mark.

. . .

Because the source of origin theory no longer exists as the primary criterion for enforcement of the trademark laws and in view of the viability of the territoriality theory, absent other considerations, I believe that Weil should be able to sustain a challenge under section 32 to [the defendant's] parallel importation even though the goods which it claims are infringing are genuine goods with genuine marks."

Ultimately, however, Judge Becker agreed with the result because "[n]either the equities of this case nor the goals of the Lanham Act permit me to conclude that Weil should find a remedy for its claimed injury in this case. The source of the confusion in this case is not [the defendant], but Weil's parent, Lladro. . . . [A] wholly owned subsidiary and its parent have . . . "a complete unity of interest." [cit]. I therefore believe that the injury here is self-inflicted and that likelihood of confusion has not been established as that phrase was intended under the Lanham Act."

Both opinions in the case stress that additional self-help mechanisms are available to the corporate entity in the Case 2a scenario. *See Weil*, 878 F.2d at 668; *id.* at 684 (Becker J., concurring). What are those mechanisms? Is Judge Becker's reading of *Katzel* and *K Mart* better than the majority's reading? Does he persuasively reconcile those two Supreme Court cases?

———————————————

LEVER BROTHERS CO. v. UNITED STATES OF AMERICA
877 F.2d 101 (D.C. Cir. 1989)

Williams, Circuit Judge:

Two affiliated corporations, one operating in the United States and one in the United Kingdom, use the same words, Shield and Sunlight, as trademarks for products that differ materially in the two countries. The products differ because the manufacturers have adjusted them to the countries' differing tastes and conditions. Third parties have directly or indirectly acquired the UK Shield and Sunlight products and imported them to the United States over the objection of the US affiliate, the domestic markholder. Two principles of trademark law—acceptance of manufacturers' interest in signalling the character of their products and consumers' interest in trusting those signals, and the recognition that trademarks may be regional—point toward prohibiting these importations. Deference to the views of the agency entrusted with enforcement of the statute points the other way. The matter ultimately turns, however, on the interpretation of section 42 of the Lanham Act of 1946, and we remand to the district court for it to complete that interpretation with the benefit of any further light that section 42's legislative history and any related administrative practice may disclose.

Lever Brothers Company is a domestic corporation which we shall refer to as either Lever or Lever US. Lever Brothers Ltd. is an English corporation, affiliated with Lever US through the latter's corporate grandparent,* and here referred to as Lever UK. Both Lever US and Lever UK manufacture a deodorant soap under a Shield trademark and a liquid dishwashing detergent under a Sunlight trademark.

* In general we rely on Lever US's account of the facts; the Customs Service does not contradict it, but disclaims ability to assess its truth.

The Shield logo on the wrapper of the two different products is virtually identical and the only difference in the appearance of each wrapper lies in fine print revealing the country of origin and, on the US version, the ingredients. But US Shield contains a higher concentration of coconut soap and fatty acids, and thus more readily generates lather. The manufacturing choice evidently arises in part out of the British preference for baths, which permit time for lather to develop, as opposed to a US preference for showers. Moreover, Britons interested in a soap's lathering properties turn to "beauty and cosmetic" soaps rather than to deodorant soaps. Further, US Shield contains an agent that inhibits growth of bacteria; Lever accounts for this difference in terms of some mix of "differing consumer preferences, climatic conditions and regulatory standards." Finally, the two bars contain differing perfume formulas and colorants.

The two versions of Sunlight use the same word in similar lettering. Their external appearances differ more than the two Shields, however. The UK product comes in a cylindrical drum rather than the flattened hourglass shape employed by the US version. The UK version carries the designation, "washing up liquid" rather than the US's "dishwashing liquid," and it displays at the top a royal emblem, along with the legend "By Appointment to Her Majesty the Queen." The contents of the packages differ materially. UK Sunlight is designed for water with a higher mineral content than is generally found in the United States, and therefore does not perform as well as US Sunlight in the "soft water" typical of US

metropolitan areas.

Consumers are apparently capable of detecting the differences between the contents of the UK and US products—once they start using them. In support of its request for a preliminary injunction, Lever US submitted letters it received from consumers expressing their rage or disappointment with what they had believed, at the time of purchase, to be a discounted version of the familiar US product. Lever argues that these letters evidence consumer confusion, imperiling its reputation for quality.

Third parties import UK Shield and UK Sunlight without authorization by Lever US or, so far as appears, by Lever UK.[***] Despite requests by Lever US, the Customs Service will not halt the importation. It declines to do so only because the trademarks are used abroad by an affiliate of Lever US.

Lever rests its claim that Customs is bound to seize such imports on section 42 of the Lanham Act of 1946, which provides that:

> no article of imported merchandise which shall *copy or simulate the name* of the [sic] any domestic manufacture, or manufacturer, or trader, . . . or which *shall copy or simulate a trademark* registered in accordance with the provisions of this chapter or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States. . . .

15 U.S.C. § 1124 (1982) (emphasis added). At its core, Lever's contention is that where affiliated domestic and foreign firms produce goods bearing the same trademark, but different in physical content, the foreign products "copy or simulate" the domestic trademark, so that section 42 forbids their importation, notwithstanding the fact of affiliation.

The Customs Service rests on a regulation whose substance evidently dates back to 1936. While its regulations call as a general matter for seizure of foreign-made articles bearing a trademark identical with one owned and recorded by a US corporation, *see* 19 C.F.R. § 133.21(b) (1988), they make a number of exceptions:

> (c) Restrictions not applicable. The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:
>
> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (*see* sections 133.2(d) and 133.12(d));
> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.[****]

. . .

19 C.F.R. § 133.21 (c) (1988). The critical clause for our purposes is subsection (c)(2), the affiliate exception.[*****]

In the Customs Service's view, as embodied in the affiliate exception, goods are genuine—and thus neither copy nor simulate a domestic trademarked good—when they bear trademarks valid in their country of origin and the foreign manufacturer is affiliated with the domestic trademark holder. Where the affiliation between producers exists, Customs regards as irrelevant both physical differences in the products and the domestic markholder's non-consent to importation.

Lever sought a preliminary injunction against the Customs Service's continued application of the affiliate exception on the ground that it violated section 42 of the Lanham Act. The district court essentially agreed with the Customs Service's interpretation of section 42. Regarding the law as clear, the court denied the request without reaching the other issues that govern an application for a preliminary injunction—the balance of hardships among the parties and the public interest. [cit]. . . .

Review of the Customs Service's regulation comes to us in an unusual posture. The Service is charged with implementation of section 42 of the Lanham Act, and accordingly we owe its interpretation deference. If we find, using "traditional tools of statutory construction," that Congress clearly expressed an intent on the matter, of course we give that intent effect; otherwise we must accept the Customs Service's interpretation if reasonable. *See* Chevron U.S.A., Inc. v. NRDC, 467 U.S. 837, 842-43 (1984); [cit]. But as the substance of the disputed regulation considerably antedates the Administrative Procedure Act, 5 U.S.C. §§ 551 et seq., the Service appears not to have supported it with the "concise general statement of [the rule's] basis and purpose" required by section 553(c). Thus, despite the stricture of SEC v. Chenery Corp., 318 U.S. 80, 94 (1943), that "courts cannot exercise their duty of review unless they are advised of the considerations underlying the action under review," a precept developed in the context of adjudication but later extended to rulemaking, [cit], we have no choice but to review without the benefit of any rulemaking record disclosing the agency's train of thought. [cit]. On the basis of the briefs before us, however, we can tentatively reach the view that the Service's construction of section 42 defeats its purpose and is therefore contrary to its intent. Our conclusion here is tentative, however, as the parties have not joined issue in any detail on the legislative history or on Customs' administrative practice, and we remand to the district court for further development of the record.

. . .

The plain language and general sweep of the Lanham Act undeniably bespeak an intention to protect domestic trademark holders from foreign competitors who seek a free ride on the goodwill of domestic trademarks. But neither section 42 nor the Lanham Act as a whole draws an explicit line between goods that "copy or simulate" a trademark and ones that do not—known as "genuine" goods. We will address first the origins of the exception and a Customs claim of ratification, then the relevant judicial authority, and finally turn to factors bearing upon the correct construction but not addressed earlier.

History of the Exception

The Service promulgated the substance of the affiliate exception in 1936 as an implementation of both the Tariff Act of 1930 and section 27 of the Trademark Act of 1905, the predecessor of section 42 of the Lanham Act. [cit]. The 1936 version was narrower than today's, as it allowed the importation of trademarked goods only if the domestic and foreign maker were "owned by the same person, partnership, association, or corporation." . . . The Service broadened the exception in 1953 to introduce a concept of affiliation and has evidently hewed to it in substance ever since. [cit].

In 1946 Congress enacted section 42 of the Lanham Act, substantially reenacting section 27 of the 1905 Act. At oral argument, counsel for the Customs Service appeared to argue that the reenactment ratified the affiliate exception. Such history as we have uncovered lends no support to that view. . . .

Case Authority

We turn first to the trio of Supreme Court cases, all revolving around face-powder, which bear upon section 42's predecessor, the almost identical section 27 of the Trademark Law of 1905: A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923); A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923) (per curiam); and Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924). Although the cases do not control the present one, they demonstrate the Court's understanding of trademark law as intended to protect a manufacturer's reputation and goodwill and to prevent confusion among consumers. They also reflect and enforce trademark territoriality.

[The Court discussed Justice Holmes' opinion in *Katzel.*] Holmes' failure to mention section 27 of the 1905 Act at all, and his reliance in the last quoted sentence on the infeasibility of the French firm's both selling and retaining the US goodwill, leave the case's bearing on section 27 uncertain. But the second case of the trilogy, [*Aldridge*], forges a link to section 27, albeit a vulnerable one. *Aldridge* appears to involve the same business transfer as lay at the root of *Katzel.* The Second Circuit described the US firm A. Bourjois & Co. as having acquired the "exclusive right to manufacture and sell in the United States any and all toilet preparations now made by [Wertheimer & Cie.]." [cit]. The sale included the trademark "Manon Lescaut," used in selling a face-powder. As in *Katzel*, an unaffiliated importer bought Manon Lescaut face-powder from the French firm and resold it in the United States under that label. The only noticeable difference between the products' packaging was small print identifying the seller. (The ingredients of plaintiff's own Manon Lescaut powder, though chemically the same as the French version, were not always bought from the French firm.) The action was brought against the Collector of Customs, however, seeking to force him to exclude the third party's product. The Second Circuit certified two questions to the Supreme Court:

> (1) Is the sale in the United States of Wertheimer's Manon Lescaut powder an infringement of plaintiff's registered

> trade-marks?
> (2) Is the collector, by section 27 of the Trade-Mark Law, required to exclude from entry genuine Manon Lescaut powder so as aforesaid made in France?

The government's three-page brief conceded that *Katzel* controlled. The Court replied that "the two questions certified by the Circuit Court of Appeals for Second Circuit are answered in the affirmative, upon the authority of *Bourjois & Co. v. Katzel*, the defendant not objecting."

While *Aldridge* reads section 27 to protect a domestic trademark holder from imports of trademarked merchandise that are "genuine" abroad, its precedential force is obviously weakened by the defendant's lack of opposition. Cases dealing with "parallel importation" or "gray goods" have relied on this weakness in discounting *Aldridge*. In such cases, both the holder of a domestic trademark and another party import goods manufactured at the same plant abroad and physically identical. But we think the case for exclusion far stronger here than in that context: here the goods imported are not physically identical to the goods sold by the US trademark holder, and the misrepresentation implicit in the use of the US trademark is far stronger than any present in the sale of gray goods.

The defendant further stresses that in *Aldridge* there was no affiliation between the French manufacturer and the US trademark holder. It persuaded the district court that the presence of affiliation here undercut equities that it viewed as having been determinative there. We shall return to the significance of this point in addressing Customs' policy arguments for its interpretation.

The third of the trilogy, Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924), emphasizes truthfulness. The defendant purchased genuine "Coty" products, including facepowder, repackaged them with its own binder, and sold them with clearly distinguishable labels. The Court assumed defendant's conduct to be that which was permitted by a district court decree secured by plaintiff and acquiesced in by defendant. The decree permitted defendant to use the trademarked name in the sale of its products, but only in an explanatory 18-word message, with all words in equal size, color, type and general distinctiveness, stating truthfully that the primary ingredient was Coty's and that the packer and seller, Prestonettes, was "not connected with Coty." [cit]. Justice Holmes, again writing for the Court, said that this did not amount to actionable infringement:

> The plaintiff could not prevent or complain of [defendant's] stating the nature of the component parts and the source from which they were derived if it did not use the trade mark in doing so. . . . If the compound was worse than the constituent, it might be a misfortune to the plaintiff, but the plaintiff would have no cause of action, as the defendant was exercising the rights of ownership and only telling the truth. . . . A trademark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. [cit]. There is nothing to the contrary in [*Katzel*]. When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not

taboo. [cit]

Prestonettes would aid the defendant only if one denied the fact that language is a social artifact, the meaning of words determined by their use in a particular social context. In Britain a request for "beer" will yield "bitter," a sort of ale with no exact equivalent here; an American seeking our "beer" over there must ask for "lager." Because of the differing conditions in the United States and United Kingdom, and the Lever affiliates' response to these conditions in the design of their products, Shield and Sunlight likewise have different meanings in the two countries. Thus the use of the trademarks for the UK versions in the United States is simply not truthful. The reasons that persuaded Holmes to deny relief in *Prestonettes* point toward granting it here.

We do not essay any grand resolution of the face-powder trilogy's legal message. None of the cases addresses the problem of affiliates generally, nor the special problem of affiliates using identical trademarks to sell products tailored for specific national conditions and tastes. On the other hand, the cases clearly view trademarks as having specific territorial scope, and are at least consistent with the view that section 27 of the 1905 Act protects a domestic trademark holder from goods genuinely trademarked abroad but imported here by parties hoping to exploit consumer confusion between the domestic and foreign products.

The Customs Service relies heavily on a variety of "parallel importation" or "gray market" cases, where a US trademark holder and a third party import goods that are not only identical in physical characteristics but are manufactured by the same firm abroad. All of the cases except *K Mart Corp. v. Cartier, Inc.* are from courts of appeal or district courts. In *K Mart*, as noted above, the Supreme Court held that in the gray goods context the affiliate exception of section 133.21(c)(2) did not violate section 526 of Tariff Act of 1930; it did not reach the question of the exception's validity under section 42 of the Lanham Act. But in Olympus Corp. v. United States, 792 F.2d 315, 321 (2d Cir. 1986), and Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659 (3rd Cir. 1989), the Second and Third Circuits considered section 42 and found it no bar to the admission of gray goods. . . .

Where the goods bearing a foreign trademark valid abroad are physically different from the US trademarked goods, however, courts have indicated a readiness to find infringement. In Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 816 F.2d 68 (2d Cir. 1987), the American trademark holder licensed a Spanish firm to make Cabbage Patch dolls and to sell them in Spain, the Canary Islands, Andorra and Ceuta Mellila. While the dolls of the US trademark owner contained English-language "adoption papers," which could be filled in and would lead to receipt of a birthday card from the US firm on the doll's "birthday," those of the Spanish licensee had Spanish-language "adoption papers" and seemingly lacked any equivalent of the birthday card system. A third-party imported and sold the Spanish version at about half the price of the US doll. The court found a violation of section 32 (1)(a) of Lanham Act, . . . which prohibits use of a trademark where it "is likely to cause confusion, or to cause mistake, or to deceive." [cit]. *Compare* Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659, 689 n.11 (3rd Cir. 1989) (holding importation of identical gray market goods did not constitute infringement under section 42, but expressly resting on absence of

finding that goods were materially different).

. . .

One may distinguish *Artworks* . . . on several grounds, but only one seems of much weight here. First, there the goods were produced by a foreign licensee rather than by an affiliate. But this distinction shows only that while in *Artworks* . . . the foreign production was with the explicit consent of the US trademark holder, here it was with a consent inferred from the affiliation. The absence of consent to importation is the same. Second, *Artworks* . . . rests on section 32 rather than section 42 of the Lanham Act. But the deceit that the Second Circuit found controlling in *Artworks*. . . seems, under the face-powder trilogy, equally relevant under section 42. Third, the Second Circuit in part distinguished *Olympus* on the ground that there plaintiff had sought judicial relief against the Customs Service, to propel it into action, whereas in *Artworks* the suit ran against the importer. We have already noted the deference due Customs as the agency entrusted with enforcement of section 42 and of course we must accept its view unless it is precluded by Congress or otherwise unreasonable; we will consider below Customs' additional contention that enforcement of plaintiff's reading of section 42 would entail unmanageable administrative difficulties.

Remaining Interpretative Concerns

Customs' central thesis, that affiliation between the foreign producer and domestic markholder automatically defines the foreign goods as genuine, draws on an important truth that a trademark holder cannot infringe its own mark. Thus, if a US markholder itself imports goods (or licenses another to do so), the markholder's conduct of or authorization of the importation makes the goods authentic, whether they are better, worse, or the same as the US markholder's domestic products. To the extent that the affiliate exception extends this principle to goods imported into the US by companies affiliated with the US markholder, it does nothing more than treat the two companies as being constructively one for infringement purposes. As such it seems unobjectionable.

But the exception contained in 19 C.F.R. § 133.21(c)(2) does more. Merely on the basis of affiliation between the US markholder and the foreign *producer*, it extends the non-violation that is implicit in importation by the markholder or with its consent to a radically different matter, imports *by third parties*. Inferring non-violation from that relation seems no more plausible than an inference of consent to import from the US markholder's licensing production abroad, which the *Artworks* . . . court[] obviously rejected.

Apart from its attempted reliance on authority and the impossibility of self-infringement, the Customs Service asserts some policy arguments. First, it contends that because of the affiliation, the dispute is better suited for resolution "in the boardroom" than the court room. As often proves true of pleasing rhetorical phrases, this seems largely irrelevant to the issue. Even if all the Lever affiliates were collapsed into a single corporate entity, its board could not single-handedly implement a decision to limit sales of UK Shield and UK Sunlight to the United Kingdom. So long as it uses third-party middlemen and retailers, it must launch those products into the stream of commerce, with the risk that some purchasers may seek to exploit the opportunity to ride on the US

trademarks' value. Indeed, at some exchange rates an arbitrageur could buy Shield and Sunlight at retail from a completely vertically integrated Lever UK and profitably resell them here. We are not told how either the US markholder or the foreign affiliate is to prevent this without invoking governmental authority, either in the form of Customs Service action or trademark-based injunctions against the importer.

Of course the "boardroom" that evidently controls both Lever US and Lever UK could solve the problem by abandoning use of the Shield and Sunlight trademarks in the United Kingdom, or at least by abandoning their use for physically distinct products. But this solution is obviously costly. The Lever affiliates have succeeded in attaching to products designed for their respective markets ordinary words that have both a favorable "spin" and a natural link to those products. Customs has offered us no shadow of a reason why it would serve any public interest implicit in section 42 to compel Lever to abandon the resulting goodwill, or (looking ahead) to refrain in the first place from establishing such goodwill by use of identical words. The resources of English are finite and the quest for an apt word costly.

Second, Customs suggests there is a consumer interest in access to the lower-priced UK products. But trademark law inherently denies consumers access to cheap goods sailing under false colors. Further, even if we were to accept Customs' dubious premise, it points to nothing supporting the idea that the mere fact of affiliation makes it more likely than in the general case that this potential consumer loss would exceed the gain from accurate signalling of quality by means of trademarks.

Third, Customs suggests that its interpretation of the Lanham Act is an administrative necessity. The alternative to the exception, it claims, is that "Customs Service agents [would be] required to assess at the border the amount of consumer confusion and/or loss of goodwill likely to result from the importation of goods bearing genuine foreign trademarks." We think this greatly overstates the problem. No one is suggesting that Customs assess the degree of consumer confusion or loss of goodwill, only that it distinguish between identical and non-identical goods. If Lever US's submissions here are correct, that would not be difficult in a case such as this. It is hard to see why Customs' arguments calls for more than allowing it room to choose inactivity in marginal cases. [cit].

Lever argues that the administrative problem is completely non-existent: that US markholders will seek to block the imports of goods produced by affiliates only when in fact they are different and therefore likely to erode the US holder's goodwill. We think this somewhat oversimplifies. *K Mart* upheld the affiliate exception as applied to parallel imports (but only in reference to plaintiffs' Tariff Act challenge), approving (for example) Customs' decision to permit third-party purchasers to buy goods produced abroad by a foreign subsidiary of a US firm and import them over the US firm's opposition (*K Mart's* "case 2b"). If we were to hold that Customs must bar goods produced by a US firm's affiliate when the US and foreign goods differ, and *K Mart* is extended to permit Customs to apply the affiliate exception where a US firm's *domestically* manufactured goods are identical to the imports, then US firms would have an incentive to raise false claims of non-identity.

Nonetheless, we find that the specter of false claims that possible future

extensions of *K Mart* might generate is not enough to validate Customs' administrative inconvenience theory. First, *K Mart* did not evaluate the affiliate exception as against an attack under section 42. Second, the *K Mart* Court never addressed the issue of foreign surrogates competing with *domestically* produced trademarked goods. We hesitate here to evaluate the probabilities of these two extensions of *K Mart*, neither of which is before us or has been briefed. We do note, however, that if the two extensions occur and if Customs' administrative practicality argument is controlling, section 42 will have become a dead letter for a surprisingly wide range of cases, the gray-goods tail wagging the dog of flat-out deception. We hesitate to impute such broad effects to *K Mart*, even in the face of the Service's disclaimer of ability to identify what is genuine.

. . .

We think the natural, virtually inevitable reading of section 42 is that it bars foreign goods bearing a trademark identical to a valid US trademark but physically different, regardless of the trademarks' genuine character abroad or affiliation between the producing firms. On its face the section appears to aim at deceit and consumer confusion; when identical trademarks have acquired different meanings in different countries, one who imports the foreign version to sell it under that trademark will (in the absence of some specially differentiating feature) cause the confusion Congress sought to avoid. The fact of affiliation between the producers in no way reduces the probability of that confusion; it is certainly not a constructive consent to the importation. The cases are entirely congruent with this view. Customs' assertion of administrative difficulties appears overdrawn, and in any event would seem to justify no more than inaction in those cases that are close on the factual issue of product identity. Thus, despite the deference we owe Customs under *Chevron*, we believe that the affiliate exception does not square with section 42.

For now, however, our conclusion must remain provisional. Neither party has briefed the legislative history nor administrative practice in any detail. . . . [W]e adopt a reading of the statute tentatively, and reverse and remand to the district court so that the parties may join issue on those points. Subject to some persuasive evidence running against our tentative conclusion, we must say that Lever's probability of success on its legal argument is quite high; at this preliminary stage we go no further. We of course express no opinion on the weights to be accorded to the various equitable elements that the district court may have to balance if, on further submissions, that probability is established.

Société Des Produits Nestle v. Casa Helvetia, Inc., 982 F.2d 633 (1st Cir. 1992). PERUGINA chocolates are manufactured in Italy and sold in Puerto Rico by an affiliate (Nestle P.R.) of the U.S. mark owner (Nestle S.P.N.). These products are targeted at the high-end of the market. The grey market PERUGINA chocolates had been manufactured and sold in Venezuela by an independent company that was a licensee of Nestle S.P.N. The Venezuelan sweets differed from the Italian sweets in presentation, variety, composition, and price. In March 1990, without obtaining Nestle S.P.N.'s consent, the defendant (Casa Helvetia) purchased the Venezuelan-made chocolates, imported them into Puerto Rico, and distributed them under the PERUGINA mark. Nestle brought claims under sections 32(1)(a),

42, and 43(a)(1) of the Lanham Act. The First Circuit concuded that "whether the fulcrum of plaintiffs' complaint is perceived as section 32(l)(a), section 42, or section 43(a), liability necessarily turns on the existence vel non of material differences between the products of a sort likely to create consumer confusion."

The Court concluded that "[t]here is no mechanical way to determine the point at which a difference becomes 'material.' Separating wheat from chaff must be done on a case-by-case basis. Bearing in mind the policies and provisions of the Lanham Act as they apply to gray goods, we can confidently say that the threshold of materiality is always quite low in such cases. *See Lever Bros.*, 877 F.2d at 103, 108 (finding minor differences in, ingredients and packaging between versions of deodorant soap to be material); *Ferrero*, 753 F. Supp. at 1241-49, 1247 (finding a one-half calorie difference in chemical composition of breath mints, coupled with slight differences in packaging and labeling, to be material); PepsiCo Inc. v. Nostalgia, 18 U.S.P.Q.2d (BNA) at 1405 (finding "differences in labeling, packaging and marketing methods" to be material); PepsiCo v. Giraud, 7 U.S.P.Q.2d (BNA) at 1373 (finding differences not readily apparent to the consumer—container volume, packaging, quality control, and advertising participation—to be material); *Dial Corp.*, 643 F. Supp. at 952 (finding differences in formulation and packaging of soap products to be material). We conclude that the existence of any difference between the registrant's product and the allegedly infringing gray good that consumers would likely consider to be relevant when purchasing a product creates a presumption of consumer confusion sufficient to support a Lanham Act claim. Any higher threshold would endanger a manufacturer's investment in product goodwill and unduly subject consumers to potential confusion by severing the tie between a manufacturers's protected mark and its associated bundle of traits."

Applying that test, the First Circuit listed various differences that it found contributed to a conclusion of material differences between the Italian and Venezuelan chocolates:

"1. *Quality Control.* The Italian PERUGINA leaves Italy in refrigerated containers which arrive at Nestle's facility in Puerto Rico. Nestle verifies the temperature of the coolers, opens them, and immediately transports the chocolates to refrigerated rooms. The company records the product's date of manufacture, conducts laboratory tests, and destroys those candies that have expired. It then transports the salable chocolates to retailers in refrigerated trucks. Loading and unloading is performed only in the cool morning hours.

On the other hand, the Venezuelan product arrives in Puerto Rico via commercial air freight. During the afternoon hours, airline personnel remove the chocolates from the containers in which they were imported and place them in a central air cargo cooler. The next morning, employees of Casa Helvetia open random boxes at the airport to see if the chocolates have melted. The company then transports the candy in a refrigerated van to a warehouse. Casa Helvetia performs periodic inspections before delivering the goods to its customers in a refrigerated van. The record contains no evidence that Casa Helvetia knows or records the date the chocolates were manufactured.

2. *Composition*. The Italian . . . candies have five percent more milk fat than their Venezuelan counterparts, thus prolonging shelf life. Furthermore, the Italian . . .chocolates contain Ecuadorian and African cocoa beans, fresh

hazelnuts, and cooked sugar syrup, whereas the corresponding Venezuelan candies are made with domestic beans, imported hazelnuts, and ordinary crystal sugar.

3. *Configuration*. The Italian chocolates in the Maitre Confiseur and Assortment collections come in a greater variety of shapes than the Venezuelan pieces.

4. *Packaging*. The packages from Italy possess a glossy finish and are either silver, brown, or gold in color. The Venezuelan boxes lack the shiny finish. They are either blue, red, or yellow in color. While the Italian sweets sit in gold or silver trays, their Venezuelan counterparts rest on white or transparent trays. The Italian boxes depict the chocolates inside and describe the product in English, French, and Italian. The Venezuelan packages describe the contents only in Spanish and English. . . .

5. Price. While the Venezuelan and Italian BACI collections contain the same quantity of chocolate (8 oz.), the Italian BACI sells for $12.99 and the Venezuelan BACI costs $ 7.50. The record also reflects that the Italian version of the Assortment collection (14.25 oz. for $ 26.99) weighs less and is more expensive than the Venezuelan version (15.6 oz. for $ 22.99)."

The Court proceeded to explain why these differences were material: "Differences in quality control methods, although not always obvious to the naked eye, are nonetheless important to the consumer. The precautions a company takes to preserve a food product's freshness are a prime example. Here, the parties' quality control procedures differ significantly. Even if Casa Helvetia's quality control measures are as effective as Nestle's—a dubious proposition on this record—the fact that Nestle is unable to oversee the quality of the goods for the entire period until they reach the consumer is significant in ascertaining whether a Lanham Act violation exists. [cit]. Regardless of the offending goods' actual quality, courts have issued Lanham Act injunctions solely because of the trademark owner's inability to control the quality of the goods bearing its name. [cit]. Thus, the substantial variance in quality control here creates a presumption of customer confusion as a matter of law. [cit].

The differences in presentation of the candies are also material. Although the district court dismissed the differences in packaging as "subtle," subtle differences are, as we have said, precisely the type that heighten the presumption of customer confusion. Consumers are more likely to be confused as to the origin of different goods bearing the same name when both goods are substantially identical in appearance. Furthermore, the differences in presentation and chocolate shape strike us as more than subtle. Glossy veneers, gold and silver wraps, and delicate sculpting add to the consumer's perception of quality. In the market for premium chocolates, often purchased as gifts, an elegant-looking package is an important consideration. The cosmetic differences between the Italian-made and the Venezuelan-made PERUGINA, therefore, might well perplex consumers and harm Nestle's goodwill.

We are also hesitant to dismiss as trivial the differences in ingredients. While the district court may be correct in suggesting that "the ultimate consumer is [not] concerned about the country of origin of cocoa beans and hazelnuts," the measure of milk fat in the chocolates is potentially significant. Certainly, consumers care about the expected shelf life of food products.

Price, without doubt, is also a variable with which purchasers are concerned. To the consumer (perhaps a gift buyer) who relishes a higher price for its connotation of quality and status, as well as to the chocolate aficionado who values his wallet more than his image, a difference of nearly five and a half dollars (or, put another way, 73 percent) on a half-pound box of chocolate is a relevant datum. Furthermore, the fact that consumers are willing to pay over five dollars more for the Italian-made chocolate than for its Venezuelan counterpart may suggest that consumers do care about the other differences between the two products. Afforded perfect information, consumers indifferent between the two would presumably not be willing to pay more for one than for the other.

We need go no further. Given the low threshold of materiality that applies in gray goods cases, we find the above dissimilarities material in the aggregate. The use of the same PERUGINA label on chocolates manifesting such differences is presumptively likely to cause confusion. Casa Helvetia could, of course, have offered evidence to rebut this presumption—but it has not done so. There is no proof that retailers explain to consumers the differences between the Italian and Venezuelan products. The record is likewise devoid of any evidence that consumers are indifferent about quality control procedures, packaging, ingredients, or price. . . ."

NOTE

In Fender Musical Instruments Corp. v. Unlimited Music Center Inc., 35 U.S.P.Q.2d 1053 (D. Conn. 1995), the district court found material differences where the imported guitars bearing the identical Fender trademark came only with a Japanese-language owner's manual, differed in the shape of their neck, their replacement parts, their available colors, and their available warranties. The court was also influenced by the fact that the U.S. plaintiff had discarded the guitar bodies in question (in a dumpster) because they did not meet Fender's quality controls.

NEW UNITED STATES CUSTOMS SERVICE RULES AND REGULATIONS ON GRAY MARKET IMPORTS AND OTHER TRADEMARKED GOODS

On remand in *Lever Brothers*, the District Court accepted the suggestions of the Court of Appeals and found the affiliate exception inconsistent with Section 42. *See* 796 F. Supp. 1 (D.D.C. 1989). The Court of Appeals later affirmed that decision. *See* 981 F.2d 1330 (D.C. Cir. 1993). In a notice published in the Federal Register on February 24, 1999, the Customs Service made final rules it had proposed in 1998 (*see* 63 Fed. Reg. 14662, March 26, 1998) to implement changes to the Customs Regulations required by the *Lever Brothers* ruling. *See* 64 Federal Register 9058 (Feb. 24, 1999). The changes became effective March 26, 1999 and are excerpted below. The new rules adopt an extremely narrow reading of *Lever Brothers* and appear still to adhere to the traditional customs' view that "enforcement of the distribution rights of a gray market article produced abroad by a party related to the U.S. trademark holder was a matter to be addressed through private remedies." *See id.* at 9058. The Customs Service interpreted *Lever Brothers* as drawing a distinction "between identical goods produced abroad under the affiliate exception and goods produced abroad under the affiliate exception that were physically and materially different from the goods authorized by the U.S. trademark owner," and as concluding that "section 42 of the Lanham Act precluded Customs application of the affiliate exception with respect to physically, materially different goods." *Id.*

Based upon that reading, the new rules provide that gray goods covered by the affiliate exception will not be restricted from importation if they bear a prescribed label informing the ultimate retail purchaser that they were not authorized by the U.S. trademark owner and were physically and materially different from the goods that were so authorized (new Regulation § 133.23(b)). The new regulations also provide that to assist Customs in determining the scope of what is physically and materially different, a U.S. trademark owner would need to submit an application for "*Lever*-rule" protection including a summary of the physical and material differences between the gray market goods and those goods authorized by the U.S. trademark owner for importation or sale. (New Regulation § 133.2(e)). This would result in Customs publishing a notice in the Customs Bulletin, and, if Customs determines to grant protection a further notice to this effect would likewise be published in the Customs Bulletin. If a trademark receives Lever-rule protection, goods that bear the protected trademark and are physically and materially different from the U.S. trademark owner's product initially will be detained. Once the goods have been detained, the burden is on the importer to show that the goods are identical and *Lever*-rule protection should not apply or that the goods are covered by another exception.

Is the labeling provision in new Regulation § 133.23(b) consistent with the rationale, holding or spirit of *Lever Brothers*? Does the Customs Service have jurisdiction to establish a consumer labeling requirement of this type? Is the label proposed by the Customs Service adequate to protect the rights of trademark owners upheld in *Lever Brothers*? *See Comments on Proposed Rule and Responses of Customs Service*, summarized at 64 Fed. Reg. 9058, 9059. If you were representing the Customs Service, how would you support the narrow

interpretation of *Lever Brothers*? *See id.* at 9060. In what ways, if any, might the labeling provision be amended to better implement the objectives of the *Lever Brothers* decision? Should the burden to obtain "Lever-rule" protection be imposed upon the trademark owner? Is the burden imposed by new Regulation § 133.2(e) too arduous?

Is the "physical and material differences" standard in proposed Rule 133.2(e) too narrow? Does *Lever Brothers* invalidate the affiliate exception only for goods that are "physically and materially different"? What about goods that are physically similar, but different in other material respects? Under *Lever Brothers*, can they be freely imported if covered by the affiliate exception? Is the more expansive approach to material differences in *Nestle* closer to the *Lever Brothers* holding? Is it a more or less appropriate approach?

Regulation 133.2—Application to record trademark

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(e) "*Lever*-rule" protection. For owners of U.S. trademarks who desire protection against gray market articles on the basis of physical and material differences, a description of any physical and material difference between the specific articles authorized for importation or sale in the United States and those not so authorized. In each instance, owners who assert that physical and material differences exist must state the basis for such a claim with particularity, and must support such assertions by competent evidence and provide summaries of physical and material differences for publication. Customs determination of physical and material differences may include, but is not limited to, considerations of:

(1) The specific composition of both the authorized and gray market product(s) (including chemical composition);

(2) Formulation, product construction, structure, or composite product components, of both the authorized and gray market product;

(3) Performance and/or operational characteristics of both the authorized and gray market product;

(4) Differences resulting from legal or regulatory requirements, certification, etc.;

(5) Other distinguishing and explicitly defined factors that would likely result in consumer deception or confusion as proscribed under applicable law.

(f) Customs will publish in the Customs Bulletin a notice listing any trademark(s) and the specific products for which gray market protection for physically and materially different products has been requested. Customs will examine the request(s) before issuing a determination whether gray market protection is granted. For parties requesting protection, the application for trademark protection will not take effect until Customs has made and issued this determination. If protection is granted, Customs will publish in the Customs Bulletin a notice that a trademark will receive *Lever*-rule protection with regard to a specific product.

Regulation 133.23—Restrictions on importation of gray market articles

(a) Restricted gray market articles defined. "Restricted gray market articles" are

foreign-made articles bearing a genuine trademark or trade name identical with or substantially indistinguishable from one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States and imported without the authorization of the U.S. owner. "Restricted gray market goods" include goods bearing a genuine trademark or trade name which is:

> (1) Independent licensee. Applied by a licensee (including a manufacturer) independent of the U.S. owner, or
>
> (2) Foreign owner. Applied under the authority of a foreign trademark or trade name owner other than the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner from whom the U.S. owner acquired the domestic title, or to whom the U.S. owner sold the foreign title(s); or
>
> (3) "*Lever*-rule". Applied by the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner . . . to goods that the Customs Service has determined to be physically and materially different from the articles authorized by the U.S. trademark owner for importation or sale in the U.S. (as defined in § 133.2 of this part).

(b) Labeling of physically and materially different goods. Goods determined by the Customs Service to be physically and materially different under the procedures of this part, bearing a genuine mark applied under the authority of the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner . . . shall not be detained under the provisions of paragraph (c) of this section where the merchandise or its packaging bears a conspicuous and legible label designed to remain on the product until the first point of sale to a retail consumer in the United States stating that: "This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product." The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container. Other information designed to dispel consumer confusion may also be added.

(c) Denial of entry. All restricted gray market goods imported into the United States shall be denied entry and subject to detention as provided in § 133.25, except as provided in paragraph (b) of this section.

(d) Relief from detention of gray market articles. Gray market goods subject to the restrictions of this section shall be detained for 30 days from the date on which the goods are presented for Customs examination, to permit the importer to establish that any of the following exceptions, . . . are applicable:

> (1) The trademark or trade name was applied under the authority of a foreign trademark or trade name owner who is the same as the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner; and/or
>
> (2) For goods bearing a genuine mark applied under the authority of the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise

subject to common ownership or control with the U.S. owner, that the merchandise as imported is not physically and materially different, as described in § 133.2(e), from articles authorized by the U.S. owner for importation or sale in the United States; or

(3) Where goods are detained for violation of § 133.23(a)(3), as physically and materially different from the articles authorized by the U.S. trademark owner for importation or sale in the U.S., a label in compliance with § 133.23(b) is applied to the goods.

(e) Release of detained articles. Articles detained in accordance with § 133.25 may be released to the importer during the 30-day period of detention if any of the circumstances allowing exemption from trademark restriction set forth in . . . in paragraph (d) of this section are established.

(f) Seizure. If the importer has not obtained release of detained articles within the 30-day period of detention, the merchandise shall be seized and forfeiture proceedings instituted. The importer shall be notified of the seizure and liability of forfeiture and his right to petition for relief in accordance with the provisions of part 171 of this chapter.

. . .

b. Copyright Law

QUALITY KING DISTRIBS. v. L'ANZA RESEARCH INT'L, INC.
523 U.S. 135 (1998)

Justice STEVENS delivered the opinion of the Court.

Section 106(3) of the Copyright Act of 1976 (the Act), gives the owner of a copyright the exclusive right to distribute copies of a copyrighted work. That exclusive right is expressly limited, however, by the provisions of §§ 107 through 120. Section 602(a) gives the copyright owner the right to prohibit the unauthorized importation of copies. The question presented by this case is whether the right granted by § 602(a) is also limited by §§ 107 through 120. More narrowly, the question is whether the "first sale" doctrine endorsed in § 109(a) is applicable to imported copies.

I

Respondent, L'anza Research International, Inc. (L'anza), is a California corporation engaged in the business of manufacturing and selling shampoos, conditioners, and other hair care products. L'anza has copyrighted the labels that are affixed to those products. In the United States, L'anza sells exclusively to domestic distributors who have agreed to resell within limited geographic areas and then only to authorized retailers such as barber shops, beauty salons, and professional hair care colleges. L'anza has found that the American "public is generally unwilling to pay the price charged for high quality products, such as L'anza's products, when they are sold along with the less expensive lower quality

products that are generally carried by supermarkets and drug stores." [cit]. L'anza promotes the domestic sales of its products with extensive advertising in various trade magazines and at point of sale, and by providing special training to authorized retailers.

L'anza also sells its products in foreign markets. In those markets, however, it does not engage in comparable advertising or promotion; its prices to foreign distributors are 35% to 40% lower than the prices charged to domestic distributors. In 1992 and 1993, L'anza's distributor in the United Kingdom arranged the sale of three shipments to a distributor in Malta; each shipment contained several tons of L'anza products with copyrighted labels affixed. The record does not establish whether the initial purchaser was the distributor in the United Kingdom or the distributor in Malta, or whether title passed when the goods were delivered to the carrier or when they arrived at their destination, but it is undisputed that the goods were manufactured by L'anza and first sold by L'anza to a foreign purchaser.

It is also undisputed that the goods found their way back to the United States without the permission of L'anza and were sold in California by unauthorized retailers who had purchased them at discounted prices from Quality King Distributors, Inc. (petitioner). There is some uncertainty about the identity of the actual importer, but for the purpose of our decision we assume that petitioner bought all three shipments from the Malta distributor, imported them, and then resold them to retailers who were not in L'anza's authorized chain of distribution.

After determining the source of the unauthorized sales, L'anza brought suit against petitioner and several other defendants.[***] The complaint alleged that the importation and subsequent distribution of those products bearing copyrighted labels violated L'anza's "exclusive rights under 17 U.S.C. §§ 106, 501 and 602 to reproduce and distribute the copyrighted material in the United States." The District Court rejected petitioner's defense based on the "first sale" doctrine recognized by § 109 and entered summary judgment in favor of L'anza. Based largely on its conclusion that §602 would be "meaningless" if § 109 provided a defense in a case of this kind, the Court of Appeals affirmed. Because its decision created a conflict with the Third Circuit, see Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (3d Cir. 1988), we granted the petition for certiorari. [cit].

II

This is an unusual copyright case because L'anza does not claim that anyone has made unauthorized copies of its copyrighted labels. Instead, L'anza is primarily interested in protecting the integrity of its method of marketing the products to which the labels are affixed. Although the labels themselves have only a limited creative component, our interpretation of the relevant statutory provisions would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books. Indeed, we first endorsed the first sale doctrine in a case involving a claim by a publisher that the resale of its books at discounted prices infringed its copyright on the books. Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908).

In that case, the publisher, Bobbs-Merrill, had inserted a notice in its books that any retail sale at a price under $1.00 would constitute an infringement of its copyright. The defendants, who owned Macy's department store, disregarded the notice and sold the books at a lower price without Bobbs-Merrill's consent. We held that the exclusive statutory right to "vend" applied only to the first sale of the copyrighted work:

> What does the statute mean in granting 'the sole right of vending the same'? Was it intended to create a right which would permit the holder of the copyright to fasten, by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it? It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.
>
> In this case the stipulated facts show that the books sold by the appellant were sold at wholesale, and purchased by those who made no agreement as to the control of future sales of the book, and took upon themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy.

Id. at 349-50. The statute in force when *Bobbs-Merrill* was decided provided that the copyright owner had the exclusive right to "vend" the copyrighted work. Congress subsequently codified our holding in *Bobbs-Merrill* that the exclusive right to "vend" was limited to first sales of the work. Under the 1976 Act, the comparable exclusive right granted in 17 U.S.C. § 106(3) is the right "to distribute copies . . . by sale or other transfer of ownership." The comparable limitation on that right is provided not by judicial interpretation, but by an express statutory provision. Section 109(a) provides:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. . . ."[********]

The *Bobbs-Merrill* opinion emphasized the critical distinction between statutory rights and contract rights.[*********] In this case, L'anza relies on the terms of its contracts with its domestic distributors to limit their sales to authorized retail outlets. Because the basic holding in *Bobbs-Merrill* is now codified in § 109(a) of the Act, and because those domestic distributors are owners of the products that they purchased from L'anza (the labels of which were "lawfully made under this title"), L'anza does not, and could not, claim that the statute would enable L'anza

to treat unauthorized resales by its domestic distributors as an infringement of its exclusive right to distribute copies of its labels. L'anza does claim, however, that contractual provisions are inadequate to protect it from the actions of foreign distributors who may resell L'anza's products to American vendors unable to buy from L'anza's domestic distributors, and that § 602(a) of the Act, properly construed, prohibits such unauthorized competition. To evaluate that submission, we must, of course, consider the text of § 602(a).

III

The most relevant portion of § 602(a) provides:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. . . ."[**********] "(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2)."

It is significant that this provision does not categorically prohibit the unauthorized importation of copyrighted materials. Instead, it provides that such importation is an infringement of the exclusive right to distribute copies "under section 106." Like the exclusive right to "vend" that was construed in *Bobbs-Merrill*, the exclusive right to distribute is a limited right. The introductory language in § 106 expressly states that all of the exclusive rights granted by that section—including, of course, the distribution right granted by subsection (3)—are limited by the provisions of §§ 107 through 120. One of those limitations, as we have noted, is provided by the terms of § 109(a), which expressly permit the owner of a lawfully made copy to sell that copy "[n]otwithstanding the provisions of section 106(3)."

After the first sale of a copyrighted item "lawfully made under this title," any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an "owner" of that item. Read literally, § 109(a) unambiguously states that such an owner "is entitled, without the authority of the copyright owner, to sell" that item. Moreover, since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right "under section 106," and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners

of L'anza's products who decide to import them and resell them in the United States.[**********]

Notwithstanding the clarity of the text of §§ 106(3), 109(a), and 602(a), L'anza argues that the language of the Act supports a construction of the right granted by § 602(a) as "distinct from the right under Section 106(3) standing alone," and thus not subject to § 109(a). Otherwise, L'anza argues, both the § 602(a) right itself and its exceptions[**********] would be superfluous. Moreover, supported by various *amici curiae*, including the Solicitor General of the United States, L'anza contends that its construction is supported by important policy considerations. We consider these arguments separately.

IV

L'anza advances two primary arguments based on the text of the Act: (1) that § 602(a), and particularly its three exceptions, are superfluous if limited by the first sale doctrine; and (2) that the text of § 501 defining an "infringer" refers separately to violations of § 106, on the one hand, and to imports in violation of § 602. The short answer to both of these arguments is that neither adequately explains why the words "under section 106" appear in § 602(a). The Solicitor General makes an additional textual argument: he contends that the word "importation" in § 602(a) describes an act that is not protected by the language in § 109(a) authorizing a subsequent owner "to sell or otherwise dispose of the possession of" a copy. Each of these arguments merits separate comment.

The Coverage of § 602(a)

Prior to the enactment of § 602(a), the Act already prohibited the importation of "piratical," or unauthorized, copies.[**********] Moreover, that earlier prohibition is retained in § 602(b) of the present Act.[**********] L'anza therefore argues (as do the Solicitor General and other *amici curiae*) that § 602(a) is superfluous unless it covers non-piratical ("lawfully made") copies sold by the copyright owner, because importation nearly always implies a first sale. There are several flaws in this argument.

First, even if § 602(a) did apply only to piratical copies, it at least would provide the copyright holder with a private remedy against the importer, whereas the enforcement of § 602(b) is vested in the Customs Service. Second, because the protection afforded by § 109(a) is available only to the "owner" of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a § 602(a) action against any non-owner such as a bailee, a licensee, a consignee, or one

> whose possession of the copy was unlawful.********** Third, § 602(a) applies to a category of copies that are neither piratical nor "lawfully made under this title." That category encompasses copies that were "lawfully made" not under the United States Copyright Act, but instead, under the law of some other country.
>
> The category of copies produced lawfully under a foreign copyright was expressly identified in the deliberations that led to the enactment of the 1976 Act. We mention one example of such a comment in 1961 simply to demonstrate that the category is not a merely hypothetical one. In a report to Congress, the Register of Copyrights stated, in part:
>
> When arrangements are made for both a U.S. edition and a foreign edition of the same work, the publishers frequently agree to divide the international markets. The foreign publisher agrees not to sell his edition in the United States, and the U.S. publisher agrees not to sell his edition in certain foreign countries. It has been suggested that the import ban on piratical copies should be extended to bar the importation of the foreign edition in contravention of such an agreement." Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 87th Cong., 1st Sess., 125-126 (H.R. Judiciary Comm. Print 1961).

Even in the absence of a market allocation agreement between, for example, a publisher of the U.S. edition and a publisher of the British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive U.S. distribution rights—enforceable under the Act—to the publisher of the U.S. edition and the exclusive British distribution rights to the publisher of the British edition,********** however, presumably only those made by the publisher of the U.S. edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

The argument that the statutory exceptions to § 602(a) are superfluous if the first sale doctrine is applicable rests on the assumption that the coverage of that section is co-extensive with the coverage of § 109(a). But since it is, in fact, broader because it encompasses copies that are not subject to the first sale doctrine—*e.g.*, copies that are lawfully made under the law of another country—the exceptions do protect the traveler who may have made an isolated purchase of a copy of a work that could not be imported in bulk for purposes of resale. As we read the Act, although both the first sale doctrine embodied in § 109(a) and the exceptions in § 602(a) may be applicable in some situations, the former does not subsume the latter; those provisions retain significant independent meaning.

Section 501's Separate References to §§ 106 and 602

The text of § 501 does lend support to L'anza's submission. In relevant part, it provides:

> (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be . . . .

The use of the words "*or* who imports," rather than words such as "*including* one who imports," is more consistent with an interpretation that a violation of § 602 is distinct from a violation of § 106 (and thus not subject to the first sale doctrine set out in § 109(a)) than with the view that it is a species of such a violation. Nevertheless, the force of that inference is outweighed by other provisions in the statutory text.

Most directly relevant is the fact that the text of § 602(a) itself unambiguously states that the prohibited importation is an infringement of the exclusive distribution right "under section 106, actionable under section 501." Unlike that phrase, which identifies § 602 violations as a species of § 106 violations, the text of § 106A, which is also cross-referenced in § 501, uses starkly different language. It states that the author's right protected by § 106A is "independent of the exclusive rights provided in Section 106." The contrast between the relevant language in § 602 and that in § 106A strongly implies that only the latter describes an independent right.[**********]

Of even greater importance is the fact that the § 106 rights are subject not only to the first sale defense in § 109(a), but also to all of the other provisions of "sections 107 through 120." If § 602(a) functioned independently, none of those sections would limit its coverage. For example, the "fair use" defense embodied in § 107 would be unavailable to importers if § 602(a) created a separate right not subject to the limitations on the § 106(3) distribution right. Under L'anza's interpretation of the Act, it presumably would be unlawful for a distributor to import copies of a British newspaper that contained a book review quoting excerpts from an American novel protected by a United States copyright.[**********] Given the importance of the fair use defense to publishers of scholarly works, as well as to publishers of periodicals, it is difficult to believe that Congress intended to impose an absolute ban on the importation of all such works containing any copying of material protected by a United States copyright.

In the context of this case, involving copyrighted labels, it seems unlikely that an importer could defend an infringement as a "fair use" of the label. In construing the statute, however, we must remember that its principal purpose was to promote the progress of the "useful Arts," . . . by rewarding creativity, and its principal function is the protection of original works, rather than ordinary commercial products that use copyrighted material as a marketing aid. It is therefore appropriate to take into account the impact of the denial of the fair use defense for the importer of foreign publications. As applied to such publications,

L'anza's construction of § 602 "would merely inhibit access to ideas without any countervailing benefit." [cit].**********

Does an importer "sell or otherwise dispose" of copies as those words are used in § 109(a)?

Whether viewed from the standpoint of the importer or from that of the copyright holder, the textual argument advanced by the Solicitor General—that the act of "importation" is neither a sale nor a disposal of a copy under § 109 (a)—is unpersuasive. Strictly speaking, an importer could, of course, carry merchandise from one country to another without surrendering custody of it. In a typical commercial transaction, however, the shipper transfers "possession, custody, control and title to the products" to a different person, and L'anza assumes that petitioner's importation of the L'anza shipments included such a transfer. An ordinary interpretation of the statement that a person is entitled "to sell or otherwise dispose of the possession" of an item surely includes the right to ship it to another person in another country.

More important, the Solicitor General's cramped reading of the text of the statutes is at odds not only with § 602(a)'s more flexible treatment of unauthorized importation as an infringement of the distribution right (even when there is no literal "distribution"), but also with the necessarily broad reach of § 109(a). The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution. As we have recognized, the codification of that doctrine in § 109(a) makes it clear that the doctrine applies only to copies that are "lawfully made under this title," but that was also true of the copies involved in the *Bobbs-Merrill* case, as well as those involved in the earlier cases applying the doctrine. There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope.**********

In sum, we are not persuaded by either L'anza's or the Solicitor General's textual arguments.

V

The parties and their *amici* have debated at length the wisdom or unwisdom of governmental restraints on what is sometimes described as either the "gray market" or the practice of "parallel importation." In K Mart Corp. v. Cartier, Inc., 486 U.S. 281(1988), we used those terms to refer to the importation of foreign-manufactured goods bearing a valid United States trademark without the consent of the trademark holder. [cit]. We are not at all sure that those terms appropriately describe the consequences of an American manufacturer's decision to limit its promotional efforts to the domestic market and to sell its products abroad at discounted prices that are so low that its foreign distributors can compete in the domestic market.********** But even if they do, whether or not we think it would be wise policy to provide statutory protection for such price discrimination is not a matter that is relevant to our duty to interpret the text of the Copyright Act.

Equally irrelevant is the fact that the Executive Branch of the Government has entered into at least five international trade agreements that are apparently intended to protect domestic copyright owners from the unauthorized importation of copies of their works sold in those five countries.********** The earliest of those agreements was made in 1991; none has been ratified by the Senate. Even though they are of course consistent with the position taken by the Solicitor General in this litigation, they shed no light on the proper interpretation of a statute that was enacted in 1976.**********

The judgment of the Court of Appeals is reversed.

Justice GINSBURG, concurring.

This case involves a "round trip" journey, travel of the copies in question from the United States to places abroad, then back again. I join the Court's opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad. *See* W. Patry, *Copyright Law and Practice* 166-170 (1997 Supp.) (commenting that provisions of Title 17 do not apply extraterritorially unless expressly so stated, hence the words "lawfully made under this title" in the "first sale" provision, 17 U.S.C. § 109(a), must mean "lawfully made in the United States"); *see generally* P. Goldstein, *Copyright* § 16.0, pp. 16:1-16:2 (2d ed. 1998) ("Copyright protection is territorial. The rights granted by the United States Copyright Act extend no farther than the nation's borders.").

NOTES AND QUESTIONS

1. Why is the Supreme Court unsure whether to describe the *Quality King* scenario as involving gray goods? In Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (1988), where the Third Circuit adopted the approach later endorsed by the Supreme Court in *Quality King*, the Court noted that, although a copyright case, the case (also involving labels on hair care products) really raised issues of "parallel importing." What is unusual about these cases? What is different from the gray goods cases litigated under the Tariff Act or the Lanham Act? Do these differences mandate a different approach to the question of exhaustion? *See Parfums Givenchy v. Drug Emporium*, 38 F.3d 477, 483-485 (9th Cir. 1994). What are the differences between the rules now governing claims asserted under the Tariff Act, the Lanham Act and the Copyright Act?

2. As the *Quality King* court suggests, *see* note 20, books written in English are often published in the United States and Britain at different times, for different prices, and in different form (for example, environmentally friendly paper is more common in the United States, but less popular in Britain). Under *Quality King*, can properly authorized copies of a novel released first in Britain be imported into the United States prior to publication in the United States? If not, why not? What interests are being served by preventing the British edition being available immediately in the United States? How has the advent of online selling (and perhaps online distribution) changed the analysis of whether a copyright owner should be able to prevent the importation of copied lawfully made in another country? For example, the Harry Potter series of childrens' books, although released in Britain several months before publication in the United

States, is available to U.S. purchasers through amazon.co.uk or another online bookseller and has become a leading seller in the United States before its U.S. publication. If you were the licensee of the U.S. publication rights, how would you respond?

Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477 (9th Cir. 1994). In this case, decided four years before *Quality King*, Parfums Givenchy USA ("Givenchy USA") sought and obtained an injunction against the importation and sale of Amarige, a perfume that was produced in France by Givenchy USA's parent company, Parfums Givenchy, S.A. ("Givenchy France"). Amarige was marketed in distinctively decorated individual boxes designed by employees of Givenchy France. Givenchy France began importing Amarige to the United States in early 1992, and shortly thereafter sold its United States copyright interests in the Amarige box design to Givenchy USA. Givenchy USA then registered the box design with the Copyright Office and began a multi-million dollar national advertising campaign to promote the perfume. A third party purchased large quantities of Amarige abroad and imported the Amarige into the United States without the authorization of either Givenchy France or Givenchy USA. The Amarige was packaged in the distinctive box. Drug Emporium, a nationwide retail chain, purchased the Amarige from the importing third parties in the United States, and began marketing the perfume in the United States in its original copyrighted packaging.

Drug Emporium argued that a lawful sale abroad of U.S. copyrighted foreign goods terminates the exclusive right of the U.S. copyright holder to import and distribute those goods in the United States, in the same way that a lawful domestic sale terminates the exclusive distribution rights of domestically manufactured materials. The Ninth Circuit rejected that argument in 1994. How would this case, where the copies of the work (the box design) were made abroad, be decided after the Supreme Court decision (reversing the Ninth Circuit) in *Quality King*? Should it matter that Givenchy USA was a wholly-owned subsidiary of Givenchy France? If Section 109(a) does not extend to copies made abroad by related companies, how might multinational enterprises structure their production and marketing to maximize their intellectual property rights? How would your answer be altered if other countries also interpreted their copyright statutes in such a fashion? Should it matter that Drug Emporium was not the importer of Amarige but rather purchased its Amarige from a wholesaler in the United States? Does the Supreme Court's emphasis upon where the copies were made mean that foreign manufactured goods are not subject to the first sale doctrine, even after a sale in the United States? *See* Denbicare USA Inc. v. Toys "R" Us, Inc., 84 F.3d 1143, 1149-1150 (9th Cir. 1996).

c. Patent Law

The Territorial Principle Of Patent Law

A basic premise of the patent right has always been the *territorial principle*. In the United States, for example, 35 U.S.C. § 261 establishes that

patents have the attributes of personal property and that "[t]he applicant, patentee, or his assigns or legal representatives may . . . convey an exclusive right under his [sic] application for patent, or patents, *to the whole or any specified part of the United States*." (emphasis added). Likewise, § 271(a) establishes that "whoever without authority makes, uses, offers to sell, or sells any patented invention, *within the United States* or imports *into the United States* any patented invention during the term of the patent therefor, infringes the patent." Section 154(a)(1) of the Patent Act mandates that the contents of the patent must make this territorial limitation of the patent grant explicit.

"Of the three principal forms of intellectual property, patent rights are the most explicitly territorial," one authority has recently observed.* "Patents are considered territorial, having legal effect only in the territory of the issuing state. Accordingly, the United States has no jurisdiction to apply its law to validate or invalidate a foreign patent, regardless of the origin of the invention, or the nationality, residence, or principal place of business of the holder of the patent or of any licensee". RESTATEMENT OF THE FOREIGN RELATIONS LAW OF THE U.S. (Third 1987) § 415, Comment i. Along with national treatment and minimum standards, territoriality is the "governing principle" of patent protection, and the concept of "international patent rights" is still incipient if not inchoate.

But inchoate concepts can take or be given more concrete form quickly under the proper circumstances. Technological advances do not recognize national boundaries. In the wake of late twentieth-century advances in information technology and communications, even the most fundamental of patent law principles—the territoriality principle—is being challenged by modern (and post-modern) events.

Patents as a "Negative Right" to Exclude

A second basic tenet of patent law is the fact that while the patent contains within its terms the right to exclude competitors from engaging in economic activity, this right is fundamentally different from a monopoly right. As stated by the U.S. Supreme Court,

> monopolists have the sole right to buy, sell, or make and others are deprived of a preexisting right to buy, sell, or make. The patent grant gives the patentee only the right to exclude others; his own right to practice the invention may be subservient to another patent. Moreover, since novelty is a requisite of patentability, the grant does not exclude the public from a pre-existing right.

Standard Oil v. The United States, 221 US (1911).

Likewise, in United States v. Dubilier 289 U.S. 178 (1933), the Court stated:

> [t]hough often so characterized, a patent is not, accurately speaking, a monopoly. . . . [t]he term monopoly connotes the giving of an exclusive privilege for buying, selling, working or

> using a thing which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge. . . . He may keep his invention secret and reap its fruits indefinitely.

Patents may be implicated in anti-competitive behavior, such as in an arrangement to fix prices or to control availability of a product. But competition laws and patent laws go hand-in-hand, and rarely collide with one another within a single jurisdiction. As the Federal Circuit said in Atari Games Corp. v. Nintendo of Am., Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990):

> [T]he two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition . . . There may on occasion exist . . . a fine line between actions protecting the legitimate interests of a patent owner and antitrust law violations. On the one hand, the patent owner must be allowed to protect the property right given to him under the patent laws. On the other hand, a patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, *i.e.* beyond the limits of what Congress intended to give in the patent laws. The fact that a patent is obtained does not wholly insulate the patent owner from the antitrust laws." "The patent is a 'shield' to protect an invention," the Court went on to say, "not a 'sword' to eviscerate competition unfairly.

Inevitably, the "territorial" and the "negative right" principles of patent law become intertwined in the international patent environment. As trade becomes more open between nations and the free movement of goods (including those protected by patents) becomes an increasingly important economic policy objective, the tensions between the two principles can escalate. The "limits of what Congress intended to give in the patent laws" have an international as well as a domestic policy-choice perspective. Defining the "international patent environment" may require reflection on what is the correct "international patent public policy" and not just the interests of any one country or group of countries. While the economic inefficiencies that may result from differences between national patent laws may not justify the extravagant rhetoric indulged in by some critics of the entire international patent environment, policy-makers must be vigilant to assure that the international exploitation of patents encourages competition without increasing the cost of innovation, including both competition between the young, rapidly growing economies of the developing countries and economies of countries which achieved developed status in the past, as well as competition between small and medium enterprises and multinational corporations. The international patent environment is not a disguise crafted to preserve (and mask) a privileged position for those national economies and large enterprises which are already technologically developed and economically mature.

Proper patent policy, in the international no less than in the national arena, lies in striking a balance between underprotection which steals the rewards of the early innovator and overprotection which stifles the later one. The following materials explore the scope of the territorial and negative right principles in the context of parallel importation of patented goods legally made and sold in a different country.

CURTISS AEROPLANE & MOTOR CORP. v. UNITED AIRCRAFT ENGINEERING CORP.

266 F. 71 (2d Cir. 1920)

ROGERS, Circuit Judge. This suit is brought under the Patent Laws of the United States for the alleged infringement by defendant of thirteen patents issued by the United States. . . . The defendant is charged with selling and offering for sale in the United States aeroplanes manufactured in Canada pursuant to certain agreements between plaintiff and the British government; the Canadian manufacture having been conducted by a corporation created by that government for that purpose. The total number of claims involved is 80. All the patents involved are for improvements in aeroplanes, and are capable of conjoint use, and are so used by plaintiff and defendant.

The bill of complaint alleges that all of the patents referred to were, by instruments in writing duly executed and recorded in the United States Patent Office, assigned to the plaintiff, and that plaintiff is the sole and exclusive owner of each and all of them. It also alleges that defendant has infringed each and all of said patents by offering for sale, selling, and using within the Southern district of New York, as well as elsewhere within the United States, aeroplanes, each of which embodies the improvements claimed in each and all of said patents. It contains the following statement:

> That the plaintiff, Curtiss Aeroplane & Motor Corporation, has developed at large expense, and produced in large quantities, aeroplanes of a distinctive type known throughout the aeroplane industry and among aviators as the Curtiss JN-4 machine; that such machine and the various parts thereof are embodiments of the several inventions of the letters patent heretofore set forth; that the defendant is now selling in the United States aeroplanes known as Canadian Curtiss or Canadian JN-4 machines, which are copies, in form, appearance, and mechanical details, of plaintiff's JN-4 machine, all in violation of plaintiff's rights under such patents and in an unfair and unlawful manner.

The bill prays an injunction and asks for an account of profits and damages resulting from the infringement which it alleges, and that any damages assessed may be tripled. The court below dismissed the bill for lack of merit, with costs to defendant.

The plaintiff, prior to the beginning of the World War, was engaged in the manufacture of aeroplanes, and as a result of the war its business was greatly extended. In 1916 the plaintiff entered into certain contracts with the British government from which it received some $4,000,000. The contract into which the

plaintiff entered with the British government is found in two separate documents: First, the agreement of November 20, 1916, with the annexed schedule, which is a contract of sales; second, the simultaneous agreement of the same date, which is an agreement on the plaintiff's (the seller's) part to promote the manufacture by the British government (the buyer) of the aeroplanes and engines of the type sold. The record contains a third document, dated December 6, 1916. The parties to this document are the Curtiss Aeroplane & Motors, Limited, of the first part, and the Canadian Aeroplanes, Limited, of the second part. The Curtiss Aeroplane & Motors, Limited, is a subsidiary company organized in Canada, in which the plaintiff owned 83 per cent. of the outstanding capital stock; and the Canadian Aeroplane, Limited, is a company which the Imperial Munitions Board had caused to be incorporated to take over the plant of the Curtiss Aeroplanes & Motors, Limited.

The document above referred to as a contract of sales was executed on behalf of his Britannic majesty's government by J. P. Morgan & Co., agents. That document contains the statement that the British government has contracted to purchase from the plaintiff, and the seller has contracted to manufacture and sell to the buyer, at the price, and subject to the terms and conditions specified, the "sellers JN-4A type aeroplane, each equipped with one seller's OX5 type 90 H.P. engine, spare parts for such aeroplanes, blueprints and such aeroplanes, seller's OX5 type 90 H.P. engine, and spare parts for such engines." It also provides for the sale of a specified number of additional engines and of sets of spare parts of such engines.

The second document of those referred to was executed by his Britannic majesty's government, acting by the Imperial Munitions Board of Canada, and it provides in its first clause as follows:

> The seller agrees to cause to be sold and delivered to the buyer within ten (10) days of the date of the fixing of the purchase price therefor, as hereinafter provided, and the buyer agrees to accept and pay for, all of the tools, machinery, drawings, patterns, jigs, etc., of the Canadian company for use in the manufacture of seller's JN-4 aeroplanes, including raw materials and material manufactured and in process of manufacture at said Toronto plants for use in the manufacture of such aeroplanes, the buyer to pay therefor to the Canadian company. . . .

It provides in its third clause as follows:

> The seller agrees that at the option of the buyer it will grant or cause to be granted to the buyer, as part of the consideration moving from the seller to the buyer for this agreement, the exclusive right and license under any and all Canadian patents and applications for Canadian patents now or at any time hereafter owned by the seller or the Canadian company, and any further inventions now or hereafter owned and controlled by them or either of them embodying changes in or improvements of seller's JN-4 type aeroplanes and of seller's type engines, to

> manufacture such aeroplanes and/or engines within the Dominion of Canada, for sale to or use by the British government or the government of any of its possessions, but not for manufacture, use, or sale otherwise.

The plaintiff alleges that it was not within the contemplation of the parties to the agreements made between plaintiff and the British government, or within plaintiff's intention or by its permission, that the aeroplanes were to be sold or used by the public, or for other than war purposes, or in the United States. These allegations are denied absolutely in an affidavit presented by one who was connected with the Imperial Munitions Board of Canada, which made the contracts, and who was the superintendent of aeronautical supplies; this department being a branch of the Air Ministry in Great Britain and responsible only to the government of Great Britain. His affidavit states that in entering into the contracts made with the plaintiff it was understood that the property manufactured or otherwise acquired by the munitions board should become the absolute property of the board, to be disposed of as it should see fit. This was purely a war organization, and as soon as hostilities ceased the board proceeded to sell off everything controlled by it, including lands, buildings, aeroplanes, motor transports, motorboats, and thousands of patented articles of all kinds, including those complained of by the plaintiff.

It is admitted that the JN-4 aeroplanes which are said to infringe were made in Canada for the British government under the agreements to which reference has been made, and that after the war defendant purchased them from the British government, and, as it appears, is now proceeding to sell them in the United States. It is also admitted that the defendant has announced its intention of establishing warehouses at various parts of the United States, and such warehouses have been established already by it in New York and Chicago, in order that it may supply individuals and companies with the spare parts of air planes of all kinds and descriptions and all standard parts which may be used in their manufacture and development, including the supplying of standard air plane parts for the particular Canadian planes herein involved.

The defendant corporation has a capital of $500,000, and as the record shows, it is in the management of men of character and of excellent business standing. The chief engineer of the Curtiss Aeroplane & Motors Limited, of Canada, states in his affidavit that "their staff of engineers is composed of the leading aeronautical engineers of this country." It was organized on November 22, 1918, which was prior to the signing of the armistice, and was established, it is said, with the idea of organizing an aeronautical engineering and consulting corporation of the highest type. At the time of its incorporation there was no intention of purchasing any of the property of the Imperial Munitions Board of Canada. It appears that after the armistice, and when defendant was first approached on the subject of the purchase of some part of the aeroplane equipment of the British government, which was located in Canada, it declared through its president that it was not interested in any extent whatsoever. In January, 1919, the Imperial Munitions Board sold a number of its machines to the Canadian government, and the remainder of its equipment was sold to F. G. Ericson, a citizen of the United States, at the time a resident of Toronto, Canada.

They were purchased by Ericson in his own name, but as matter of fact he was acting for defendant. He is a member of the Society of Automotive Engineers and a Fellow of the Aeronautical Society of Great Britain, and had been for nine years engaged in the development of aeronautics. In 1915 he was appointed chief engineer of the Curtiss Aeroplane & Motors, Limited, or Canada, and when that concern was taken over by the Canadian Aeroplanes, Limited, he became its chief engineer. Before the sale to Ericson was made he informed the director of aviation of the Imperial Munitions Board what disposition he intended to make of the property upon acquiring it, and that he expected to sell a few of the planes in Canada, but that most of them would be sold for commercial purposes in the United States, and that he expected to establish a depot for such sales in or near Baltimore. With this information in its possession the Imperial Munitions Board made the sale, and made it entirely without restriction of condition, and gave Ericson full right to sell and dispose of the property whenever and wherever he might see fit. It may be remarked in passing that the counsel of the munitions board, who is referred to in one of the affidavits "as one of the most prominent attorneys in Canada," furnished that board with an opinion in which he denied the claims set up by the plaintiff as to the rights which the British government had under the agreements already referred to.

The bill charges no infringement by manufacture, nor does it raise the question when assembling ends and manufacturing begins. It deals with nothing but the right to bring into the United States certain JN-4's which the plaintiff gave permission to make, and in the making of which it aided, and for every one of which it has been compensated. The right to bring these machines into the country is the sole question with which the bill deals.

An aeroplane has been said to be the most mobile article manufactured, and it is not confined by geographical boundaries. It is susceptible of use anywhere in the world. As was said at the argument, aeroplanes were used by the British government, not only in England and Canada, but over the battle fields of Belgium and France, in Egypt, Palestine, Mesopotamia, Northern Russia, South Africa, and indeed wherever hostilities existed. In the very nature of things, and from the language used in the agreements, it is evident that the contracting parties contemplated such widespread use. After this country entered the war, the aviation fields in Texas and in other states were placed at the disposal of the British authorities and were actually used by them as training fields for Canadian aviators. It does not appear in this record whether any of these Canadian JN-4 planes were then brought into the United States for use by Canadian aviators on our aviation fields, who were there undergoing training. If, however, such planes were then brought into the United States, and if they contained the plaintiff's manufactured engines, it would be difficult to believe that any one would seriously contend that their introduction involved any violation of the plaintiff's patents.

The plaintiff and the British government alike understood and intended that the aeroplanes to be manufactured by that government as well as those to be supplied to it by the plaintiff were to become the absolute property of the government, and were to be disposed of as the latter should see fit. The express language of the contract is that the aeroplanes and other articles should "become and be the absolute property of the British government."

The plaintiff, in becoming the owner of the patents in suit, acquired the exclusive privilege of making, using, and vending, and of authorizing others to make, use, and vend the subject-matter of the respective inventions without its permission. Bloomer v. McQuewan, 14 How. 539. The exclusive right of an inventor in his invention was not recognized by the common law, which conferred no such monopoly upon him. The right in the United States rests upon article 1, Sect. 8, of the Constitution, which gives to Congress the power to promote the progress of science and the useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries. While a patent is undoubtedly a monopoly it belongs to a class made legal by the constitutional provision referred to.

It is important to determine what right or rights passed to the British government under the agreements which it entered into with the plaintiff. As we have seen, the owner of a patent has three distinct rights, which he can dispose of either together or singly: (1) The right to make the article. (2) The right to use it. (3) The right to sell it. Waterman v. Mackensie, 138 U.S. 252. A grant which does not transfer all these rights is a license. So, also, is the right to make, use, and sell the article for specified purpose only. Gamewell Fire-Alarm Telephone Co. v. Brooklyn (C.C.) 14 Fed. 255; Bogart v. Hinds (C.C.) 25 Fed. 484. *See* 22 Am. & Eng. Encyc. of Law, 430.

That the British government secured the right to manufacture the aeroplanes, and the engines as well, is not open to doubt. In the fourth clause of the agreement of sale the plaintiff bound itself from time to time to furnish the British government all information useful to it "in the building of such aeroplanes and engines, including engineering data, blueprints in detail of such aeroplanes and engines," etc. The sixth clause of that agreement reads as follows:

> The seller agrees that at the request of the buyer from time to time it will send to the plant to be established by the buyer in the Dominion of Canada a competent engineer, familiar with the design, construction, and methods of manufacture of such aeroplanes and/or engines, to assist and advise the buyer in the manufacture thereof. Such engineer shall report his observations and recommendations to the general manager of the plant so to be established by the buyer, or any other person designated by it for that purpose, and shall continue in the exclusive employment of the buyer during its pleasure, receiving compensation from the buyer at a rate not to exceed fifty dollars ($50) per week during the time of such continuous and exclusive employment.

And the seventh clause provides that the British government shall pay "on each such engine manufactured" by it a specified sum, adding:

> "And such exclusive right and license shall be granted only upon the further condition that the buyer shall pay to the seller," etc.

There is much more in the agreements which proves what the plaintiff's intention was respecting the right of the British government to manufacture, but it

is not necessary to set it forth herein. It does not in any way restrict or qualify the right of the British government.

That government plainly acquired the right under its license to make. Did it also have the right to use and to vend? The answer to this question depends upon whether the authorization to make was general and unrestricted or subject to qualification and conditions, as to the disposition of the planes by the British government. The agreements will be searched in vain for any restriction of condition as to the right to use or to vend; and in the absence of such restriction we understand the law to be that the British government obtained a full and unqualified right to use and sell the planes and engines, and that this right passed to all subsequent purchasers, and therefore to this defendant. No American or British decision asserting a contrary doctrine is known to us.

The plaintiff relies on certain cases, but an examination shows that they are plainly distinguishable, and do not support the plaintiff's contention. The cases upon which it relies belong to one or the other of two classes: (1) Those in which there has been a sale of a patented article, or a license to manufacture, but accompanied by explicit and unequivocal restrictions as to the time, or place, or manner of using the article so sold or licensed, or as to the ultimate disposal thereof. Dickerson v. Matheson, 57 Fed. 524; Dickerson v. Tinling, 84 Fed. 192; Dickerson v. Sheldon, 98 Fed. 621. (2) Those in which there has been no participation whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which is alleged to infringe. Boesch v. Graff, 133 U.S. 697; Featherstone v. Ormonde Cycle Co. (C.C.) 53 Fed. 110; Daimler v. Conklin, 170 Fed. 70. And if a patentee retains title to the patented machine, which was not done in this case, he may restrict its manner of use, in the lease or other contract. United States v. United Shoe Machinery Co., 247 U.S. 32, 58. In Chaffee v. Boston Belting Co., 22 How. 217, 223, the Supreme Court said:

> When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly. . . . By a valid sale and purchase, the patented machine becomes the private individual property of the purchaser, and is not longer protected by the laws of the United States. . . .

In Bloomer v. Millinger, 1 Wall. 340, 350, the court said:

> Patentees acquire the exclusive right to make and use, and vend to others to be used, their patented inventions for the period of time specified in the patent; but when they have made and vended to others to be used one or more of the things patented, to that extent they have parted with their exclusive right. They are entitled to but one royalty for a patented machine. and consequently, when a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, or to construct and use and operate it, and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold or so

authorized to be constructed and operated.

The purchaser of a patented article from a territorial licensee (one whose rights are limited to a restricted territory) may, unless there is a specific agreement to the contrary, use the article so purchased outside of the territory without interference from the patentee. The article is no longer within the monopoly of the patentee, and the purchaser can use it anywhere. This principle was announced in Adams v. Burke, 17 Wall. 453, 456, where it was said:

> It seems to us that, although the right of Lockhart & Seelye to manufacture, to sell and to use these coffin lids was limited to the circle of 10 miles around Boston, that a purchaser from them of a single coffin acquired the right to use that coffin for the purpose for which all coffins are used; that, so far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent. It would be to ingraft a limitation upon the right of use not contemplated by the statute, nor within the reason of the contract to say that it could only be used within the 10-mile circle.

And see, to the same effect, Hobbie v. Jennison, 149 U.S. 355; Keeler v. Standard Folding Bed, 157 U.S. In the case last cited the court said:

> Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. . . . The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.

If a patentee or his assigned sells a patented article, that article is freed from the monopoly of any patents which the vendor may possess. If the thing sold contains inventions of several United States patents owned by the vendor, the article is freed from each and all of them; and if the vendor has divided his monopoly into different territorial monopolies, his sale frees the article from them all. If the vendor's patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and his domestic patents, and where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country. This doctrine was recognized by Judge Wallace in the Circuit Court for the Southern District of New York in 1885, in Holiday v. Mattheson, 24 Fed. 185. That case raised the question whether the owner of a patent in the United States for an invention, and who had sold the patented article in England without restrictions or conditions, could treat as an infringer one who had purchased the article in England of a vendee of the patentee, and could restrain

him from using or selling the article in the United States. In deciding the question adversely Judge Wallace said:

> When the owner sells an article without any reservation respecting its use, or the title which is to pass, the purchaser acquires the whole right of the vendor in the thing sold, the right to use it, to repair it, and to sell it to others; and second purchasers acquire the rights of the seller, and may do with the article whatever the first purchaser could have lawfully done if he had not parted with it. The presumption arising from such a sale is that the vendor intends to part with all his rights in the thing sold, and that the purchaser is to acquire an unqualified property in it; and it would be inconsistent with the presumed understanding of the parties to permit the vendor to retain the power of restricting the purchaser to using the thing bought in a particular way, or in a particular place, for a limited period of time, or from selling his rights to others. It is quite immaterial whether the thing sold is a patented article or not, or whether the vendor is the owner of a patent which gives him a monopoly of its use and sale. If these circumstances happen to concur, the legal effect of the transaction is not changed, unless by the conditions of the bargain the monopoly right is impressed upon the thing purchased; and if the vendor sells without reservation or restriction, he parts with his monopoly so far as it can in any way qualify the rights of the purchaser.

And *see* Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co. (C.C.) 40 Fed. 580.

Counsel for plaintiff relies strongly upon Societe Anonyme des Manufactures de Glaces v. Tilgman's Patent Sand Blast Co., L.R. 25 Ch. Div. 7. That case, however, is readily distinguishable in its facts. There were two patents for the same invention, one Belgian and one British. The two patents were owned by the same concern. A third party had purchased the patented article in Belgium, and had then undertaken to import his purchase into England. The owner of the British patent had not manufactured the article, nor sold it, nor in any way authorized the purchaser to bring it into England, and therefore was not estopped from enforcing his rights against the purchaser. The owner of the patent had granted to the Belgian Societe Anonyme a mere ordinary license to operate under the Belgian patent, and the court held that, inasmuch as the relationship was that of ordinary licensor and licensee, the Belgian product was not immune from infringement within Great Britain. In the course of his opinion in that case Cotton, L.J., however, said:

> When an article is sold without any restriction on the buyer, whether it is manufactured under either one or the other patent, that, in my opinion, as against the vendor gives the purchaser an absolute right to deal with that which he so buys in any way he thinks fit, and of course that includes selling in any country where there is a patent in the possession of and owned by the vendor.

The extract quoted fits the facts of this case. The plaintiff herein as the original vendor gave to the British government, as purchaser, an absolute right to deal with that which it purchased in any way it thought fit, and defendant herein derives its right from that government to bring the aeroplanes into the United States in the manner it did, and the plaintiff is without ground of complaint. As the plaintiff has already been paid for these aeroplanes the full price it asked, it is no longer concerned about the price at which the article is sold, or whether the article is kept in Canada, or in Great Britain, or in the United States. We may summarize our conclusions:

It is admitted that, if the aeroplanes which are alleged to infringe had been built in Canada under a limited license, or under a Canadian patent, and then brought into the United States, infringement would have been made out. But that is not this case.

It appears that the aeroplanes complained of were manufactured under a license from the plaintiff and with the latter's active assistance, and that they contain engines furnished by the plaintiff with the intent that they should be so used.

It appears that the plaintiff has been paid a sum in excess of $4,000,000 for the aeroplanes and engines, which plaintiff sold or agreed might be manufactured.

It appears that the license under which the aeroplanes were manufactured contained no restriction or limitation as to time, or place, or manner of use of the aeroplanes, nor as to the ultimate disposition which might be made of them, and that they were therefore freed from the monopoly of the plaintiff's patents.

The decree appealed from is in all respects affirmed, with the costs of both courts.

AN INTERVIEW WITH JUDGE GILES S. RICH U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT

15 ABA-IPL Newsletter 1, 6 (1999)

Q: While we're on the subject of misnomers, I've heard that you disagree with the reasoning of the so-called "first sale doctrine." What's wrong with the idea that the first authorized sale of a patented product "exhausts" the patentee's right to control the subsequent disposition of that particular item?

Judge Rich: My position is simple: No patent right is involved, and nothing is exhausted. Talking about exhaustion of the patent right is nonsense, and it's about time to stop talking nonsense. To explain, I have to discuss two things: (1) what the patent right is; and (2) what is the meaning of "exhaustion." It is no longer debatable what the patent right is. . . . [T]he Supreme Court told the country in 1852 in Bloomer v. McQuewan that it consists altogether in the right to exclude others—and that is all it is. It is not an ambiguous "exclusive right"; it is a simple right to exclude others. Period.

Now, the premise is that the patentee made and sold the patented invention. That was the so-called "first sale." What did his right to exclude others have to do with those acts? Absolutely nothing. In manufacturing, was he excluding anyone? No. In selling, was he excluding anyone? No. Then he

wasn't exercising his patent right, was he? The trouble stems from the old ambiguous statutory definition of the patent right as the "exclusive right to make, use and sell."

Turning to the meaning of "exhaustion," it means the state of being drained or used up completely. It assumes that there is something to be used up. Well, since the patent right is not involved, how could it be used up? It couldn't have been used, even a teeny bit, and it certainly was not exhausted.

But that's not all there is to the analysis. What is this so-called "first sale" of an article on which the seller happens to have a patent? It is a simple transfer of ownership—a chattel or personal property—from one person to another. The rights of the buyer are governed by the laws of property or the law of sales or both. And the law of patents has nothing whatever to do with those rights. Any restraints on the new owner have to be made under the law of contracts, and any contractual restrictions are subject to the antitrust laws. So there is neither use nor exhaustion of patent rights.

Conclusion: The term "exhaustion doctrine" is meaningless nonsense. The legal result is OK, but the reasoning is all wrong. The simple fact is that no patent right is involved in the sale of merchandise by the patentee, nothing is exhausted, and the adjective "first" in "first sale" is also without significance. Let's clear up the thinking about this law.

NOTES AND QUESTIONS

1. The *Curtiss* court, in dicta, says, "If the vendor's patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and his domestic patents, and where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country." Is that one limitation on restrictions or two? Can a patentee prohibit parallel importation by a bona fide purchaser of goods manufactured overseas by a licensee? By a subsidiary incorporated in the foreign country which owns a foreign patent? What if the parent corporation owns both the U.S. and the foreign patent?

2. Is the *Curtiss* court in agreement with Judge Rich on the significance of *Bloomer v. McQuewan*? Does 35 U.S.C. 261, which states that "subject to the provisions of this title, patents shall have the attributes of personal property," clarify whether a patent is a monopoly? To what extent do divisions of international markets by patent owners by grant of territorial licenses create non-competitive effects, justifying legal limitations on the freedom of the patentee to contract?

3. Is there any significance to the fact that there is an explicit limitation on the right to exclude upon transfer of a particular copy in the Copyright Act of 1976 and no such limitation on the patentee's right in the Patent Act of 1952?

C. TRADITIONAL KNOWLEDGE AND THE RIGHTS OF INDIGENOUS PEOPLES

Andrew Brown, MAORI TRADE MARKS - CULTURAL SENSITIVITY

REVISITED, 29 Intellectual Property Forum 40 (May 1997)

For over 130 years it has been possible to register Maori words and symbols as trade marks in New Zealand. But in 1994, as part of further reform on trade mark law, the Ministry of Commerce established a Maori Focus Group to consider the trade marking of Maori words and symbols. In April the Maori Focus Group published a Discussion Paper as part of an on-going consultative process proposed by the Ministry. The Discussion Paper suggests some far reaching proposals to control registration of Maori words and symbols. These proposals raise issues of cultural sensitivity which deserve wide debate.

Until late 1994, trade marks comprising Maori words and symbols were largely treated as part of the available trade mark "vocabulary". The cultural dimension was probably something which few gave thought to. Some national press coverage was given to Air New Zealand's application for the Koru symbol when this was advertised for possible opposition in 1996. Publicity has equally been given to the Aotearoa Maori Tourism Federation's proposal for a collective trade mark certifying the authenticity of Maori goods. But this issue has really been something of a "sleeper".

Although there are thousands of businesses in New Zealand already using Maori words as trade marks (and indeed as business names), belated consideration is now being given to some of the issues. These moves can be seen as part of wider Maori concern about the protection of Maori cultural and intellectual property - a concern which has been growing since the early 1990's. It is also part of the consultation process with Maori which is now part and parcel of much modern New Zealand legislation (in recognition of Treaty of Wattangi obligations).

The Maori Focus Group considers that New Zealand's current intellectual property laws (trade marks, designs, patents and copyright) do not provide sufficient protection for Maori words and symbols. To a large extent this is because of a cultural and legislative mis-match. New Zealand's intellectual property laws require identification of owners before applications can be made or rights asserted. By contrast, Maori symbols have often been developed over generations and are collectively owned. It is often difficult or impossible to determine who created them.

Also conventional intellectual property concepts do not easily accommodate broader Maori rights to cultural and intellectual property. Such Maori claims extend, for example, to heritage practices such as the haka and watata. Indeed one definition from the Aotearoa Maori Tourism Federation defines it "as taonga (treasures) inherited and conceived by Maori". This broad issue of the need for protection for Maori cultural and intellectual property is very much a live one and is being actively considered by the Ministry of Commerce and the former Ministry of Maori Affairs (now called Te Puni Kokiri). It seems clear that some novel legislative solutions may be required in future.

Leaving this wider issue aside, the Focus Group has a number of specific proposals for trade marks.

(a) First that, as a matter of principle, Maori words and symbols should be registrable as trade marks. But the sting lies in the proposed conditions. The

proposal is that the applicant must provide clear evidence of the origin of the trade mark, ie, whether it is original or where it is drawn from. The applicant must also show that consent has been obtained from the relevant iwi (tribe), hapu (sub-tribe) or whanau (extended family), ie, that the cultural source of the word or symbol has been acknowledged and permission obtained. These proposals raise many unanswered and difficult questions. For example, is it always possible to identify the origin of a word? How will an applicant know which iwi, hapu or whanau to consult?

(b) To ensure that Maori words and symbols are respected and used in appropriate ways, the Focus Group considers that the proposed new trade mark legislation should have built-in pre-registration mechanisms. If the mark is important to all Maori then the mark should be assessed as to whether registration would be "culturally appropriate". Here a Consultative Committee is proposed which, prior to examination of the application, would advise whether the application was "culturally appropriate". The exact shape of this Consultative Committee and the guidelines that would apply are left to be resolved following further consultation with Maori.

It is also proposed that the Commissioner of Trade Marks be given power to refuse registration of trade marks which would be culturally inappropriate to a section of the community. The definition of what constitutes "a section" could include a whanau (ie, extended family).

(c) A further proposal is that a person who is "culturally aggrieved" be able to oppose a trade mark application or to have status to make application for removal of an existing trade mark from the register. At present the status requirement is that the applicant be a "person aggrieved". This is very liberally interpreted to include almost all but an officious busy-body.

(d) The Focus Group has put forward a number of subsidiary proposals including giving the Commissioner of Trade Marks power to require conditions or disclaimers on Maori words or symbols "in the public interest".

With the Discussion Paper now published, the Ministry of Commerce proposed a series of meetings to further consult with Maori. Submissions may also be made direct to the Ministry of Commerce.

There are many issues which the discussion paper does not address. One major gap is that the proposed controls will apply only to registered trade marks. But this will produce a huge disparity between registered and unregistered trade marks or between registered trade marks and company names. There are already many thousands of businesses throughout New Zealand which incorporate Maori words as part of their company or trading name.

It is a time-honoured tradition in New Zealand for many Maori words or place names to be used in business names and trade marks in this way. Unregistered trade marks and company names are protected under the Fair Trading Act or through the passing off cause of action. These are important and valuable rights which will remain outside the proposed new controls. Are they any the less "culturally appropriate or inappropriate" than registered trade marks?

Where is the line to be drawn?

A further issue concerns vested rights. What of those trade marks which comprise Maori words and symbols which have been registered and used for many years. Will these be susceptible to an application for removal from the Register because the mark or its use is considered inappropriate to a person who is "culturally aggrieved"? This raises sensitive issues of conflict between established rights on the one hand and cultural rights on the other.

These will not be easy issues to resolve. Wise heads and practical solutions will be needed before a legislative solution is found.

NOTES AND QUESTIONS

1. On what basis might the U.S. registration as trademarks of symbols invoking Native American culture be challenged? In Harjo v. Pro-Football, Inc., 50 U.S.P.Q.2d 1705 (T.T.A.B. 1999), the Trademark Trial and Appeal Board ordered the cancellation of the registration of the mark REDSKINS for the Washington Redskins football team on the ground that the mark was disparaging under Section 2(a) of the Lanham Act. The case is presently on appeal. *See also* Jack Achiezer Guggenheim, *The Indians' Chief Problem: Chief Wahoo as State Sponsored Discrimination and a Disparaging Mark*, 46 Clev. St. L. Rev. 211 (1998) (suggesting arguments by which the federal trademark registration of the mascot of the Cleveland Indians baseball team, which is seen by many in the Native American community as an emblem that denigrates Native American culture, may be challenged). Should the question of registerability depend upon whether the symbol in question is offensive to Native Americans? The 850-member Zia pueblo, in New Mexico, has used as a sacred symbol for 800 years, the Zia sun sign, as a "symbol of collective identity." In 1997, a tour company obtained federal registration of a mark that included the Zia sun sign. *See* Phil Patton, *Trademark Battle Over Pueblo Sign*, N.Y. TIMES Jan. 13, 2000 at F1. On what basis might it be argued that any trademark that uses traditional Native American symbols should be denied federal registration? *See* 15 U.S.C. § 1052. If current U.S. law permits such registration, should it? What changes to the Lanham Act might be appropriate? In a recent report, the PTO proposed no amendment of the Lanham Act to address the concerns of Native American tribes, but rather suggested that the PTO compile a database of official tribal insignia in order to assist the Office in better applying existing statutory rules. Is this an adequate response? *See Report on the Official Insignia of Native American Tribes* (United States Patent and Trademark Office, November 1999), available at http://www.uspto.gov/web/offices/com/sol/notices/insgstdy.pdf>.

2. In November 1999, WIPO organized a roundtable on Intellectual Property Rights and Traditional Knowledge. *See* Report on the Protection of Traditional Knowledge: a Global Intellectual Property Issue, WIPO/IPTK/RT/99/2 (WIPO Oct. 22, 1999); *see also* Michael Blakeney, *What Is Traditional Knowledge? Why Should it Be Protected? Who Should Protect It? For Whom?: Understanding The Value Chain*, WIPO/IPTK/RT/99/3 (Oct. 6, 1999). What intellectual property concerns are raised by the grant of ownership rights in traditional knowledge? Why might it be important to address such issues internationally? What measures might the international intellectual property

community adopt?

DRAFT REPORT OF WIPO (JULY 3, 2000)

EXECUTIVE SUMMARY

This Report presents information compiled by the World Intellectual Property Organization (WIPO) from nine fact-finding missions conducted by WIPO in 1998 and 1999 on the intellectual property (IP) needs and expectations of holders of traditional knowledge (TK).

The fact-finding missions (the FFMs) were designed to enable WIPO to identify, as far as possible, the IP needs and expectations of TK holders. While the needs of TK holders have been referred to in other international fora, there has been to date no systematic global exercise by international organizations to document and assess, first-hand, the IP-related needs of TK holders. As the United Nations specialized agency responsible for the promotion of the protection of IP, WIPO undertook the FFMs as part of a new programme of activities, initiated in 1998, to explore and study current approaches to, and future possibilities for, the protection of the IP rights of holders of TK.

The purpose of the Report is to provide information to WIPO Member States, holders of TK, including indigenous peoples, the private sector, intergovernmental and non-governmental organizations, academic and research institutions and other interested parties on the IP needs and expectations of TK holders expressed to WIPO during the FFMs.

It is expected that the findings of this Report will be discussed with WIPO Member States and others at fora in the course of the 2000-2001 biennium, with a view, particularly, to defining and guiding future WIPO activities on the IP protection of TK.

. . .

[IP] is not limited to existing categories such as patents, copyright and trademarks. Indeed, the definition of IP in the Convention Establishing [WIPO] makes it clear that "intellectual property" is a broad concept and can include productions and matter not forming part of the existing categories of intellectual property, provided they result, as the definition states, "from intellectual activity in the industrial, scientific, literary or artistic fields." . . . IP is evolutionary and adaptive. New advances in technology – information technology and biotechnology particularly – and changes in economic, social and cultural conditions require continuous appraisal of the system and at times adjustment and expansion, accompanied often by controversy. For example, the last few decades have seen the recognition of new forms of IP, such as a *sui generis* form of protection for plant varieties (in the 1950s and 1960s), patent protection for biological material, plants and animals (in the 1970s and 1980s), a *sui generis* form of protection for layout designs (topographies) of integrated circuits (1980s), copyright protection for computer software (1980s) and protection for databases and compilations of data (1980s and 1990s). The possible protection of tradition-based innovations and creations by the IP system . . . is a more recently articulated question.

. . .

The Report seeks to summarize, reflect upon and draw broad conclusions on what may be considered to be the main and most prevalent IP-related needs and expectations expressed to WIPO during the FFMs by TK holders and others with whom WIPO consulted. The main needs and expectations may be summarized as follows:

* The selection of an appropriate term or terms to describe the subject matter for which protection is sought.
* A clear definition or description of what is meant (and not meant) for IP purposes by the term or terms selected.
* The adjustment of expectations through effective awareness-raising as to the role and nature of IP protection in relation to TK.
* The prevention of the unauthorized acquisition of IPRs (particularly patents) over TK by documenting and publishing TK as searchable prior art, where so desired by the relevant TK holders.
* An analysis of how prior art is established for purposes of patent examinations in the context of TK.

* Greater awareness-raising on the IP system, particularly among sectors of society and communities unfamiliar with it, such as indigenous and local communities and Governmental offices not directly involved in IP law and administration.
* Greater understanding by the IP community of the perspectives, expectations and needs of TK holders.
* Facilitation of dialogue and contact between TK holders, the private sector, Governments, NGOs and other stakeholders to assist in development of modalities for cooperation between them, at community, national, regional and international levels.
* Enhanced participation by the national and regional IP offices and the IP community at large in TK-related processes in which IP issues are raised.
* Study of the relationship between collectivity of TK and IPRs, more particularly testing of options for the collective acquisition, management and enforcement of IPRs by TK holders' associations, including the applicability of collective management of IPRs to TK.
* Study of customary law and informal IP regimes in local and traditional communities, including conclusions relevant for the formal IP system.
* In the shorter term, testing the applicability and use of existing IP tools for TK protection, through practical and technical community-level pilot projects and case studies; and, provision of technical information and training to TK holders and Government officials on possible options under the existing categories of IP for TK protection.
* In the longer term, the possible development of new IP tools to protect TK not protected by existing IP tools, the elaboration of an international framework for TK protection, using *inter alia* the WIPO-UNESCO Model Provisions for National Laws on the Protection of Expressions of Folklore Against Illicit Exploitation and Other Prejudicial Actions, 1982 as a possible foundation, and the development of a *sui generis* system of "community" or "collective" rights to protect TK.

* Facilitating access to the IP system, to enable TK holders to use and enforce rights under the IP system.
* The provision of information, assistance and advice with respect to the enforcement of TK protection.
* The provision of legal/technical assistance with TK documentation, including information and advice on the IP implications of TK documentation.
* The provision of IP advice and assistance in respect of legislation, regulations, guidelines, protocols, agreements (including model terms), policies and processes on access to and benefit-sharing in genetic resources.
* Assistance and training for TK holders in the negotiation, drafting, implementation, and enforcement of contracts.
* The development and testing, with the close involvement of indigenous peoples and local communities, of "best contractual practices", guidelines and model clauses for contracts.
* Awareness-raising on the potential commercial value of TK and the development of tools for the economic valuation of TK.

It is evident that some of the needs and expectations conflict, or reflect competing policy objectives. WIPO has not attempted to mediate the needs or "resolve" conflicts, but rather to report as fully as possible on the information received from FFM informants. WIPO recognises that it cannot address all these needs and a collaborative effort by other relevant organizations and processes would be desirable. The needs as identified pose challenges for the entire IP community – national and regional IP offices, collective management societies, the private sector, NGOs, civil society, consumers, and the international community, including WIPO and its Member States. The needs and expectations as identified do not, therefore, represent a work program for WIPO, although they are reflected in WIPO's activities relating to TK in the 2000-1 biennium, which was developed based on the information obtained during the FFMs and other activities. . . .

Further exploration of the role of IP in TK protection also requires a technical understanding of IP and application in the specifics of concrete uses of TK. For its part, as the specialized United Nations agency responsible for the promotion of IP worldwide, WIPO is committed to continuing to address conceptual problems and undertake a practical and technical examination of the application of the IP system to various forms of TK in order to provide an informed and realistic analysis of the IP aspects of TK protection.

An efficient IP system that protects TK will promote continued creation and innovation based on that knowledge. IP is not only about conferring property rights. It is also about recognition of and respect for the contributions of human creators. From this perspective, IP has a very important role to play in protecting the dignity of holders of TK and, by recognizing property rights in relation to such knowledge, giving those holders a degree of control of its use by others. The protection of TK also benefits third parties, who are able to enjoy access to protected tradition-based innovation and creation that may not be collected, captured in some media, or find channels of distribution without IP protection.

The FFMs have shown the richness and diversity of TK on a global scale, both in terms of its inherent creativity and as potential subject matter for IP

protection. The IP system cannot, however, respond fully to all the needs of TK holders. Many of the problems encountered by TK holders are less "legal" than "operational" – TK holders (as do some other sectors of society) often lack the know-how and financial resources to take advantage of the IP system, whether in its present or in an evolved form, and they need support in this respect. There are nevertheless certain conceptual difficulties. However, the fact that existing standards of IP may not be in perfect harmony with elements of TK worthy of protection, should not be seen as an insuperable obstacle. IP has consistently evolved to protect new subject matter, such as software and layout-designs, the emergence of which was unforeseeable even twenty years earlier. Copyright protection has been extended to the digital environment. IP is now moving forward to protect databases. Given its evolutionary and adaptive nature, it is not inconceivable that the IP system might provide effective protection for traditional knowledge.

D. INTELLECTUAL PROPERTY IN NON-INTELLECTUAL PROPERTY SPECIFIC INSTITUTIONS

ENVIRONMENT AND TRIPS

Committee on Trade and Environment (WT/CTE/W/8 8 June 1995)

The April 1994 Marrakesh Ministerial Decision on Trade and Environment states that "the Committee on Trade and Environment will consider the work programme envisaged in the Decision on Trade and Services and the Environment and the relevant provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights as an integral part of its work." This paper has been prepared in response to the request to the Secretariat by the Committee for a background document to assist its work in the latter area.

Section I of this paper notes that only one provision of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement"), i.e. Article 27.2, explicitly refers to environment. Section II provides a wider background for an assessment of the links between environmental concerns and intellectual property rights ("IPRs") by considering the main relevant features of an important recent international agreement that covers aspects of IPRs and environmental protection, the Convention on Biological Diversity (hereinafter "the Biodiversity Convention"). Section II also includes a short negotiating history of the Biodiversity Convention, with particular reference to Article 16 which addresses transfer of technology. Section III provides a summary of the relevant ongoing work in this area in other international organizations, and Section IV notes the provisions in inter-governmental environmental agreements that have implications for IPRs. The discussion of the Biodiversity Convention and activities in other international fora will indicate the IPR issues that have been raised as having a link with environment. Section V provides the provisions of the TRIPS Agreement relevant to matters raised in discussion in environmental fora. Section VI provides a negotiating history of the relevant provisions of the TRIPS Agreement. Section VII considers the exemptions provided under Article XX of GATT 1994 and the question of whether it has a bearing on TRIPS obligations. . . .

I. PROVISIONS OF THE TRIPS AGREEMENT THAT EXPLICITLY REFER TO THE ENVIRONMENT

Article 27.2 is the only provision in the TRIPS Agreement that makes an explicit reference to the environment. It states that "Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect ordre public or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law." Thus, if it is necessary to ban the commercial exploitation of an invention in order to avoid serious prejudice to the environment, a WTO Member is free to refuse a patent for the invention concerned.

II. THE CONVENTION ON BIOLOGICAL DIVERSITY: MAIN ASPECTS AND A BRIEF NEGOTIATING HISTORY

An important concern in the area of environment has been that global biodiversity (including genetic resources) is being depleted over time and hence a need to conserve and use it in a sustainable manner has been emphasized. Biodiversity is valued for maintaining the possibility of responding to new situations that may arise, for instance, in the area of agriculture and medicine, and because of its links to the sustainability of certain ecosystems. The initial response of the international community to the threat of genetic erosion was to build a network of "gene banks" where genetic materials, for example, seeds of abandoned varieties, could be stored and conserved ex situ. "Ex-situ conservation" is defined as the conservation of components of biological diversity outside their natural habitats. However, this method of conservation led to some loss of viability and of characteristics and, over time, the focus has changed towards in-situ. "In situ conservation" is defined as the conservation of ecosystems and natural habitats and the maintenance and recovery of viable populations of species in their natural surroundings and, in the case of domesticated or cultivated species, in the surroundings where they developed their distinctive properties. conservation of biodiversity. Therefore, incentives for conserving and sustaining animal and plant biodiversity in the natural habitats have been increasingly emphasized. For example, farmers and local communities are now being encouraged to conserve traditional plant varieties on-farm or in situ. In situ agro-biodiversity was seen by many to be a result of informal innovations, knowledge and practices of farmers, local communities and indigenous populations, and it was argued that they should get a return on these efforts. Such returns were also seen as important because they would provide incentives to continue to perform the task of preserving biodiversity.

The Biodiversity Convention was negotiated under the auspices of the United Nations Environment Programme ("UNEP") and was opened for signature at the United Nations Conference on Environment and Development in 1992. The Convention came into force on 29 December 1993. Countries that have signed or ratified the Convention are listed in Annex 2.

The Biodiversity Convention operates at three levels, *i.e.* genes, species, and ecosystems, and extends to all genetic resources, namely, plant, animal and microbial. It affirms that the conservation of biodiversity is "a common concern of humankind," and that States have sovereign rights over the biological resources in their territories. Article 15 recognizes the sovereign rights of States over their natural resources and the preamble reaffirms that "States have sovereign rights over their own biological resources". Article 15.1 states that "[r]ecognizing the sovereign rights of States over their natural resources, the authority to determine access to genetic resources rests with the national governments and is subject to national legislation." The question of ownership (or property rights) is not addressed by the Convention, and is subject to national law. Under the Biodiversity Convention, States are responsible for conserving their biological diversity andfor using it in a sustainable manner. Access to a Party's genetic resources must be on mutually agreed terms and on the basis of prior informed consent of the Party providing the resources. Prior informed consent under Article 15 is not an obligation, but an option to be exercised by the Contracting Party providing genetic resources. Article 15.5 states that "[a]ccess to genetic resources shall be subject to prior informed consent of the Contracting Party providing such resources, unless otherwise determined by that Party." The objectives of the Biodiversity Convention are "the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising from the use of genetic resources, including by appropriate access to genetic resources and by appropriate transfer of relevant technologies, taking into account all rights over those resources and to technologies, and by appropriate funding." Article 1 of the Biodiversity Convention. This also reflects a view that such sharing of benefits would provide incentives for conservation of biodiversity in the regions where it exists (*i.e.* incentives for in situ conservation).

The Biodiversity Convention provides for sharing research and development activities, benefits from the results of research and development, and commercial use of these results on mutually agreed terms. Access to or transfer of technology has to be provided in line with the provisions mentioned below, and as far as possible and as appropriate, incentives have to be provided to preserve genetic diversity. Similarly, in order to preserve and make sustainable use of biodiversity, the Convention provides for increased encouragement and interaction with regard to information, research, training, public education and awareness, and technical and scientific cooperation. With regard to several aspects including, inter alia, sharing in research and development, in the benefits of the results of research and development and of the commercial application of these results, such sharing has to be on mutually agreed terms. *See*, for example, Articles 15.4, 15.7, 16.2, 16.3, 18.5 and 19.2.

In the negotiation of the Biodiversity Convention, issues related to IPRs were important in the context of provisions dealing with access to and transfer of technology (Article 16 of the Convention); in the Biodiversity Convention, the term "technology" includes biotechnology, and covers technologies that assist further conservation and sustainable use of genetic resources as well as technologies that do not cause significant damage to the environment and result from the use of genetic resources to which access is provided by Contracting Parties.

Relevant features of the Biodiversity Convention

The principles of the Convention are that "States have, in accordance with the Charter of the United Nations and the principles of international law, the sovereign right to exploit their own resources pursuant to their own environmental policies, and the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other States or of areas beyond the limits of national jurisdiction" (Article 3). The role of indigenous and local communities in conserving biodiversity is recognized in the preamble; the importance of maintaining their knowledge and practices relevant to the conservation of biodiversity and the sustainable use of its components is also recognized, as is the need to encourage equitable sharing of benefits derived from the use of their knowledge, innovations and practices (Articles 8(j) and 10(c)). Identification and monitoring of biodiversity is viewed as an ongoing process involving development of the capacity of the Parties to fulfil the objectives on a long term and sustainable basis (Article 7). The Biodiversity Convention provides that, as far as possible and as appropriate, incentives have to be provided for the conservation and sustainable use of components of biodiversity (Article 11). In order to preserve and make sustainable use of biodiversity, the Convention provides for increasing encouragement and interaction with regard to information, research, training, public education and awareness, and technical and scientific cooperation (Articles 12, 13, 14, 17 and 18). Article 18.3 provides that the Contracting Parties have to determine at their first meeting how to establish a clearing-house mechanism to promote and facilitate technical and scientific cooperation.

The Biodiversity Convention applies to *in situ* and *ex situ* genetic resources acquired in accordance with the Convention, but not those taken and deposited in gene-banks prior to the Convention's entry into force. It emphasizes in-situ conservation (Article 8). Article 8 of the Biodiversity Convention calls for measures ranging from the establishment of a system of protected areas to the rehabilitation of degraded ecosystems and recovery of threatened species, the protection of natural habitats and the maintenance of viable populations of species in natural surroundings. Ex-situ conservation measures are called for principally to complement in-situ conservation (Article 9). Recognizing the sovereign rights of States over their natural resources, the authority to determine access to genetic resources rests with national governments and is subject to national legislation (Article 15.1). However, each Party to the Biodiversity Convention must endeavour to create conditions to facilitate access to genetic resources for environmentally sound uses by other Parties and must not impose restrictions that run counter to the objectives of the Biodiversity Convention (Article 15.2). Where access to genetic resources is granted, it has to be on mutually agreed terms and be subject to prior informed consent of the Party providing the resources, unless otherwise determined by that Party (Articles 15.4 and 15.5). Genetic resources provided by any Party to the Biodiversity Convention are only those resources that are provided by Parties which are countries of origin of those resources or by Parties that have acquired the genetic resources in accordance with the Convention (Article 15.3). For those Parties providing access to genetic resources, the benefits include possibility of participation in scientific research based on the genetic resource supplied (Articles 15.6) Article 15.6 states that "[e]ach Contracting Party shall endeavor to develop and carry out scientific research based on genetic resources provided by other Contracting Parties with the full participation of, and where possible in, such Contracting Parties," of sharing results of research and development and benefits arising from commercial and other utilization of genetic resources on mutually agreed terms (Article 15.7) Article 15.7 states that "[e]ach Contracting Party shall take legislative, administrative or policy measures, as appropriate, and in accordance with Articles 16 and 19 and, where necessary, through the financial mechanism established by Articles 20 and 21 with the aim of sharing in a fair and equitable way the results of research and development and the benefits arising from the commercial and other utilization of genetic resources with the Contracting Party providing such resources. Such sharing shall be on mutually agreed terms.", of participation in biotechnological research activities based on those genetic resources (Articles 19.1) Article 19.1 states that "[e]ach Contracting Party shall take legislative, administrative or policy measures, as appropriate, to provide for the effective participation in biotechnological research activities by those Contracting Parties, especially developing countries, which provide the genetic resources for such research, and where feasible in such Contracting Parties," and priority access on a fair and equitable basis to the results and benefits arising from biotechnologies based upon those genetic resources, on mutually agreed terms (Article 19.2). Article 19.2 states that "[e]ach Contracting Party shall take all practicable measures to promote and advance priority access on a fair and equitable basis by Contracting Parties, especially developing countries, to the results and benefits arising from biotechnologies based upon genetic resources provided by those

Contracting Parties. Such access shall be on mutually agreed terms." *See also* Article 8(j) which states that "[e]ach Contracting Party shall, as far as possible, and as appropriate, subject to its national legislation, respect, preserve and maintain knowledge, innovations and practices of indigenous and local communities embodying traditional lifestyles relevant for the conservation and sustainable use of biological diversity and promote their wider application with the approval and involvement of the holders of such knowledge, innovations and practices and encourage the equitable sharing of benefits arising from the utilization of such knowledge, innovations and practices."

Access to and transfer of technology is addressed by Article 16. In order to get an overall perspective on different aspects related to transfer of technology under Articles 16, it is important to also bear in mind certain other provisions in the Biodiversity Convention, for example, Article 12 (research and training), Article 17 (exchange of information), Article 18 (technical and scientific cooperation), and Article 19 (handling of biotechnology and distribution of its benefits). These provisions emphasise both the soft component of technology (such as skills, know-how and design) and the hard component (machinery and equipment, and other tangible inputs). Experience with operation of technology has shown that the soft and hard components have to work in a complementary manner to result in successful transfer of technology. Intellectual property rights are explicitly mentioned in the second, third and fifth paragraphs of Article 16. . . .

Article 19 addresses handling of biotechnology (including biosafety aspects), access to information and research and distribution of benefits of biotechnology. Under Article 20, new and additional financial resources are to be provided to developing countries to enable them to meet the agreed full incremental costs to them of the measures needed to implement the Biodiversity Convention's obligations. The agreement on the composition of these costs is to be bilaterally reached between each developing country Party and the institution chosen to handle the financial mechanism. The mechanism for providing financial resources to developing country Parties is set out in Article 21. The mechanism will operate under the authority of the Conference of the Parties (established under Article 23) to which it will be directly accountable, and funds will be provided on a grant or concessional basis. Article 25 establishes a subsidiary body on scientific, technical and technological advice for timely advice relating to the implementation of the Biodiversity Convention. . . .

Resolution Three of the Nairobi Final Act of the Conference for the Adoption of the Agreed Text of the Convention on Biological Diversity (22 May 1992) identified the need to seek solutions to some unresolved issues, *e.g.* farmers' rights . . .

III. RELEVANT ONGOING WORK IN OTHER INTERNATIONAL ORGANIZATIONS

This section reports on certain ongoing work at United Nations Environment Programme, Biodiversity Convention, Consultative Group on International Agricultural Research, Food and Agriculture Organization, World Intellectual Property Organization and UPOV that is relevant for a discussion of environment and TRIPS.

United Nations Environment Programme (UNEP)

In 1993, UNEP's Governing Council approved the creation of two Centres, both based in Japan. The purpose of the Centres is to promote the development and transfer of environmentally-sound technologies, with a particular emphasis on sustainable freshwater management technologies, as well as other environmentally-related technologies. At the Session of UNEP's Governing Council in 1995, governments requested that such Centres include work on developing "modalities for financing endogenous capacity-building of scientific and technology centres, in particular in developing countries and countries with economies in transition."

Consultative Group on International Agricultural Research (CGIAR)

The CGIAR is a consortium of donor and development agencies that supports autonomous research Centres which aim to develop technologies and information relevant to improving the productivity and sustainability of agricultural, forestry and aquatic systems in developing countries. One of the activities of the CGIAR is ex-situ conservation and use of plant genetic resources. The CGIAR Centres have collected and stored seeds or other reproductive parts of their mandate crops. Each year, more than 120,000 germplasm accessions from the in-trust collections and 500,000 samples of improved material are distributed by the Centres, the large majority to developing countries. The Centres are also involved in research to improve technologies for in-situ conservation.

Under agreements signed in October 1994, the Centres of the CGIAR that maintain germplasm collections have placed these collections under the auspices of FAO. The agreements contain obligations that the material will be made available to all users, and that the Centres will not claim any property rights on these materials. These conditions will apply also to the material with the users to which it is made available, except for "the repatriation of the germplasm to the country that provided such germplasm."

Food and Agriculture Organization (FAO)

In 1983, the FAO established a Global System for the Conservation and Utilization of Plant Genetic Resources for food and agriculture. The Global System is being developed and monitored by the intergovernmental Commission on Plant Genetic Resources (CPGR) within the context of the International Undertaking on Plant Genetic Resources, a non-binding agreement that was adopted by the FAO Conference in 1983. The Undertaking recognizes a principle of free access to genetic resources. It includes a provision for an international fund for the conservation and utilization of plant genetic resources. However, compensation was not necessarily to be provided directly to farmers. The fund hasnot yet become operational. The CPGR is an intergovernmental forum of donors and users of plants genetic resources, technology and funds. Currently 144 countries are formally part of the system. It has negotiated a Code of Conduct for Plant Germplasm Collecting and Transfer which provides guidelines for collecting and transferring plant genetic resources to facilitate access and promote their use and development on an equitable basis this code of conduct was adopted by the FAO Conference in 1993; a draft Code of Conduct on Biotechnology which includes provisions on IPRs is under development.

The CPGR has also provided a framework for agreements negotiated between various States and institutions, such as the International Agricultural Centres of the Consultative Group on International Agricultural Research. Moreover, in 1989 and 1991, the FAO Conference adopted resolutions on farmers' rights. The role of the farmers in developing plant varieties was recognized at the FAO Conference in 1989, which endorsed a concept of farmers' rights. It was stated that farmers have "rights arising from the past, present and future contributions of farmers in conserving, improving, and making available plant genetic resources [which] allow farmers, their communities, and countries in all regions, to participate fully in the benefits derived, at present and in the future, from the improved use of plant genetic resources, through plant breeding and other scientific methods," (FAO Resolution 5/89) and plant breeders' rights. Plant breeder's right or plant variety protection is an exclusive right granted to the breeder of a new plant variety to exploit his new variety. The nature of these rights can vary depending on the system of protection adopted in this context. See for example the note in Annex 1 to this paper. For more details on plant breeder's rights, *see* International Union for the Protection of New Plant Varieties of Plants (1994), *UPOV National Seminar on the Nature of and Rationale for the Protection of Plant Varieties under the UPOV Convention*, UPOV/ISB/94/1, 10 November 1994.

One of the CPGR's areas of interest relates to IPR over plant varieties, related technologies and farmers' germplasm. During the sessions of the Commission, discussions on these matters have been conducted among member countries since 1983, and following UNCED, further discussions are being held on access to plant genetic resources for food and agriculture, access to related technologies, and the realization of farmers' rights. Other matters being discussed by the Commission include the impact of IPRs on the environment, (especially the distinctiveness, uniformity and stability criteria for plant breeders' rights), and a revision of the International Undertaking on Plant Genetic Resources to harmonize it with the Biodiversity Convention (including negotiations on access to plant genetic resources and the realization of farmers' rights). . . .

World Intellectual Property Organization (WIPO)

WIPO offers a range of assistance and services to developing countries. In respect of intellectual property and the environment, two types of assistance are of special interest to developing countries:

(i) the provision of advice and training to governments and public and private sector organizations, and their staff, on negotiations and arrangements relating to the licensing of intellectual property and the management of such property, where such arrangements have an impact on the environment;
(ii) the provision, with the cooperation of some industrialized countries, of technological state-of-the-art search reports covering various categories of technology, including technology relevant to the environment. Those reports, which are provided free, are prepared on the basis of information available from patent documents, of which some 30 million are in existence, held by those industrialized countries. Since the search service started, some 8,000 such search reports have been provided.

International Union for the Protection of New varieties of Plants (UPOV)

UPOV administers the International Convention for the Protection of New Varieties of Plants, notably the 1978 Act which is presently in force, and the 1991 Act which is yet to enter into force. . . .

UPOV develops test guidelines for the conduct of tests for "distinctness, homogeneity and stability" of plant varieties. This is an ongoing task involving four Technical Working Parties, responsible respectively for test guidelines for individual species for agricultural crops, for fruit crops, for ornamental crops and forest trees, and for vegetables. In addition, there are two special Working Parties.

One studies the application and harmonization of biochemical and molecular techniques in the field of plant variety protection, and the other focuses on the possibility of automation and the harmonization of computer programmes within UPOV with a view to promote the harmonization of the method used by member states in distinguishing between plant varieties.

In order to avoid duplication of tests of varieties for which applications for protection are filed with more than one member State, cooperation in technical examination has been achieved on the basis of agreements between the competent authorities of member States, under which the testing of a given species is effected for a group of members States by one member State, and the purchase by a member State on an ad hoc basis of the result of a test carried out by another member State. The office of UPOV maintains and updates a list of species for which offers for cooperation in examination have been made.

The Office of the UPOV collects national laws on plant breeders' rights and prepares translations of them into English. It also provides assistance in the development of the legal systems in different countries to take account of the criteria mentioned in the UPOV Convention. . . .

V. PROVISIONS OF THE TRIPS AGREEMENT RELEVANT TO MATTERS RAISED IN DISCUSSIONS IN ENVIRONMENTAL FORA

While the TRIPS Agreement covers all the main areas of intellectual property (copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout-designs related rights, trademarks, geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits, and undisclosed information), the intellectual property related issues that have been raised in the environmental fora concern essentially those IPRs relevant to technology, in particular patents. . . .

The following issues are considered in turn: promotion of environmentally-sound technology; access to and transfer of technology; technology that may adversely affect the environment; patentability of genetic material/life forms; and contribution of countries/communities sources of genetic material. These points are addressed without prejudice to whether they are all intellectual property related or indeed environment related but because they have been raised in environmental fora by at least some as having an IPR dimension.

(a) Promotion of environmentally-sound technologies

The importance of promoting environmentally-sound technology has been referred to in many discussions in environmental fora; for example, it is reflected in Agenda 21. A fundamental feature of IPR systems and of the TRIPS Agreement, particularly in the area of patents, is to provide incentives for the generation of new technology, by giving the inventor an exclusive right (subject to certain exceptions) over the use of his invention for a finite period of time. . . . The IPR system provides protection to the results of investment in the development of new environmentally-friendly technology, thus giving the incentive and the means to finance such research and development. A combination of a well-functioning IPR system and appropriate price signals in the market, which direct research and development effort to environmentally-sound technologies, can play a major role in developing the technologies that will respond to environmental problems. The TRIPS Agreement will help reinforce this in a wider range of countries.

The objective of promoting the development of new technology is referred to in Article 7 of the TRIPS Agreement which says that "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."

With this objective in mind, the TRIPS Agreement (Article 27.1) requires that patents be available for any invention, in all fields of technology, subject to certain limited exceptions (mainly for inventions in the area of plants and animals. . . . minimum rights that a patent must confer on its owner are set out in Article 28 These are subject to a number of exceptions, some of which are discussed in paragraphs 59 and 61 to 65 below. Article 33 requires that the term of protection available must be at least 20 years from the date of filing of the patent application.

A number of other provisions of the TRIPS Agreement are also of relevance to the promotion of technological innovation. One is Article 39 on the protection of undisclosed information. . . .

(b) Access to and transfer of technology

This issue is addressed in the Biodiversity Convention, in Agenda 21 and in a number of other agreements on environmental matters. As indicated in paragraph 50 above, it is an objective of the TRIPS Agreement to promote not only technological innovation, but also "the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge in a manner conducive to social and economic welfare, and to a balance of rights and obligations."

The objectives of promoting technological innovation and the transfer of technology are usually mutually consistent since right holders are generally more willing to transfer technology voluntarily where a country's IPR system provides effective protection. In addition, the disclosure requirements of the patent system and exceptions to patent rights for experimental use are designed to maximize the degree to which knowledge of new technology becomes publicly available and can be the basis for further technological development. Moreover, the TRIPS Agreement contains some specific requirements on developed country Members to provide incentives for technology transfer to least-developed country Members. . . .

In the event that there is tension between the objectives of promoting technological innovation and the transfer of technology, and with the aim of securing the objectives of Article 7, the TRIPS Agreement contains a number of provisions, in particular on compulsory licensing and control of anti-competitive practices, to establish an appropriate balance between these two objectives, and thus between the interests of producers and users of technological knowledge, conducive to social and economic welfare. . . .

Most technology is in the public domain, either because protection was never sought in the first place In order to benefit from patent protection, it is necessary to obtain a separate patent in each jurisdiction and that patent is only valid in that jurisdiction. The extent to which patents are taken out varies greatly from country to country. . . .;

When technology, whether patented or not, is in the control of a government, that government is of course free to transfer it on concessional terms if it so wishes;

There is nothing in the TRIPS Agreement that would prevent a government or an international financial mechanism from providing financial assistance to enable the voluntary transfer of privately-held proprietary technology on concessional terms;

The obligations of the TRIPS Agreement only have to start applying at the expiry of transition periods (Articles 65 and 66) - generally one year for developed countries, five years for developing countries and countries in transition facing special problems in structural reform of the intellectual property systems, and eleven years (with a possibility of extension) for least-developed countries. In the situation where a developing country does not presently give product patent protection in a particular area of technology, the introduction of such protection can be delayed for up to ten years. In respect of pharmaceutical and agricultural chemical products, there are special additional transition provisions that take account of the regulatory delay before such products are approved for marketing (Articles 70.8 and 70.9).

(i) Disclosure

One of the purposes of the patent system is to encourage inventors to disclose new technology rather than attempt to keep it secret, so that new technology can become part of the common pool of knowledge of mankind. Article 29 establishes an obligation on Members to require that patent applicants disclose the invention.

The obligation to disclose has a number of important consequences for the transfer of and access to technology. For the duration of the term of protection, information is readily available about from whom the technology can be obtained; [a]t the end of the patent term, the disclosed invention falls into the public domain and is freely available to all; [and f]urther research and development is facilitated - see next heading.

(ii) Experimental use

Article 30 allows Members to make "limited exceptions" to the rights conferred by a patent, subject to certain conditions.

(iii) Incentives to transfer of technology

As mentioned earlier, the TRIPS Agreement does not stand in the way of governments providing incentives for the transfer of technology. Indeed, Article 66.2 of the TRIPS Agreement requires developed country Members to "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".

(iv) Compulsory licences Also sometimes referred to as "non-voluntary licences."

The TRIPS Agreement contains a provision allowing a compulsory licence (*i.e.* a licence granted without the agreement of the patent owner) to be granted to an applicant to use a patented invention where the right holder has not been willing to grant a voluntary licence on reasonable commercial terms and conditions within a reasonable period of time, subject to a number of conditions aimed at protecting the legitimate interest of the patent owner. In cases of national emergency or other circumstances of extreme urgency and in cases of public non-commercial use, a Member may waive the requirement to first seek a voluntary licence. The relevant provisions of the TRIPS Agreement are Article 31.

(v) Anti-competitive practices

Among the measures that a Member may take to remedy abusive anti-competitive practices is the grant of a compulsory licence. Where a compulsory licence is granted to remedy a practice determined after judicial or administrative process to be anti-competitive, Article 31(h) relaxes several of the conditions normally applicable to the compulsory licensing of patents. In such a case, there is no longer a requirement to seek first a voluntary licence on reasonable commercial terms and conditions, the goods produced under the licence need not be predominantly for the supply of the domestic market of the Member granting the compulsory licence, and the need to correct anti-competitive practices may be taken into account in determining the amount of remuneration of the right holder.

(c) Technology that may adversely affect the environment

A concern highlighted in various discussions on environmental matters is the need to curb the adverse effect of certain technology on the environment. In the work on the Biodiversity Convention, in FAO and elsewhere, the issue of control of the release of new biotechnological products into the environment has been prominent. In discussions on plant variety protection and "farmer's rights", concern about the possible effect of uniform new varieties displacing the biodiversity provided by traditional varieties has been expressed by some. Similarly, a long-standing subject of attention in most countries has been the environmental effects of agricultural chemicals, which are generally subject to a testing and approval procedure before being authorized for marketing.

As far as the TRIPS Agreement is concerned, the main point is that it does not affect the right of governments to restrict research or development or the use of technology on the grounds of protecting the environment. A patent gives the right to the patent owner to prevent others from using the protected invention (subject to certain exceptions), but does not guarantee the patent owner the right to exploit the technology in question. . . . In this regard, the provisions of Article 8.1 of the TRIPS Agreement should be noted. . . .

Although . . . the possibility for a government to restrict the use of technology on environmental grounds is not affected by the grant of a patent, it should also be noted that Article 27.2 of the TRIPS Agreement enables a Member to exclude from patentability inventions whose use would seriously prejudice the environment. . . .

Also of relevance to controls on the use of environmentally-prejudicial technology are the provisions of Article 39.3 on the protection of undisclosed test or other data submitted in order to obtain marketing approval for pharmaceutical and agricultural chemical products which utilize new chemical entities. These provisions provide protection to the very considerable investment that frequently has to be made in testing such products to ensure their usefulness and safety, notably for the environment in the case of agricultural chemicals. While one of the forms of protection that should be granted is against disclosure of the information, this does not apply where disclosure is necessary to protect the public or where steps are taken to ensure that the data is protected against unfair commercial use.

(d) Patentability of genetic material/life forms

The extent to which genetic material and life forms should be patentable is an active issue in many contexts - in the judicial, legislative and executive branches of many governments, in commercial circles, and in public opinion. Environmental groups have participated actively in this debate. Concerns that they have raised include the issue of the environmental safety of biotechnological inventions and the possible effect on biodiversity of the uniformization of productive varieties/races. The way in which the TRIPS Agreement relates to these issues has already been indicated in paragraphs 67 and 68 above. Ethical questions about the patenting of life forms have also been raised as well as economic questions about the effects on users and the distribution of benefits with the suppliers of the underlying genetic material.

The first point to note is that Article 1.1 of the TRIPS Agreement makes it clear that there is no expectation that countries will have identical patent laws: the obligation is to meet the minimum standards of the TRIPS Agreement while being free to grant more extensive protection than is required by the Agreement. The implication of this is that the fact that patents may be granted in response to certain applications in some countries does not necessarily mean that this would be an obligation under the TRIPS Agreement.

Article 27.1 of the TRIPS Agreement establishes the basic criteria for patentability. . . . Thus, the TRIPS Agreement allows each Member to refuse to grant a patent for any claimed invention which does not meet any one of the following criteria: it must be new; it must involve an inventive step or be non-obvious; it must be capable of industrial application or useful (and it must have been adequately disclosed). A country would remain free to refuse a patent for biological or genetic material which has been merely discovered or where the use of it claimed as the subject of the invention was already known.

Even if an application meets the basic tests of patentability, Article 27.3(b) of the TRIPS Agreement allows Members to exclude from patentability certain plant and animal inventions. . . . Even if an invention meets the basic criteria for patentability of Article 27.1 and does not fall within the exceptions allowed under Article 27.3(b), a patent may still be refused under Article 27.2 if the invention is offensive to ordre public or morality, including to human, animal or plant life or health or to avoid serious prejudice to the environment. . . . [T]he main condition attached to the use of this exception to patentability is that the prevention of the commercial exploitation of the invention is necessary to protect ordre public or morality, including to avoid serious prejudice to the environment.

(e) Contribution of countries/communities sources of genetic material

In discussions in fora concerned with environmental matters, such as in the negotiation of the Biodiversity Convention and in the FAO Commission on Plant Genetic Resources, the issue of recognizing the contribution of indigenous peoples and local communities through the provision of traditional knowledge and informal innovation practices has been raised. In the FAO, the concept of "farmer's rights" has been defined as "rights arising from the past, present and future contribution of farmers in conserving, improving and making available plant genetic resources, particularly those in the centres of origin/diversity" (FAO Resolution 5/89). Attention is also given in the Biodiversity Convention to the question of the participation of countries sources of genetic resources in research activities using such resources and, on mutually agreed terms, in the results and benefits arising from biotechnologies using such genetic resources.

This matter has two aspects. One is the question of the recognition of the intellectual contribution made by indigenous peoples/local communities. The strengthened protection of IPRs worldwide that should flow from the TRIPS Agreement will help indigenous and local communities benefit from their contributions where the conditions for protection of patents, plant varieties, trade secrets, industrial designs, geographical indications, copyright and performers' rights (*e.g.* in respect of expressions of traditional culture) are met. The question of new forms of protection adapted to the particular circumstances of such peoples/local communities was not raised during the TRIPS negotiations.

The second aspect concerns the contribution of countries/communities through the conservation and provision of genetic resources in their natural state. The TRIPS Agreement is silent on the question of the participation of countries/communities in the benefits from the use of technology based on genetic resources originating in their territories. There is also nothing in the TRIPS Agreement that stands in the way of contractual arrangements between countries and companies seeking to use genetic resources from those countries, public transfers of funds or any other mechanism compatible with its provisions.

VII. ARTICLE XX OF GATT 1994 AND THE TRIPS AGREEMENT

Article XX of GATT 1994 specifies certain conditions under which a Member is exempted from obligations under other provisions of GATT 1994. Similarly, the TRIPS Agreement has provisions which exempt Members from certain obligations imposed by other provisions of the TRIPS Agreement. For example, Articles 27.2 and 27.3 permit exemption from patenting in specified circumstances or for specified inventions. Article 30 permits certain exemptions to the rights conferred by patents, and Article 31 permits the use of patented technology without authorization of the right holder provided certain conditions are met. Details on these provisions have already been provided above.

In the Marrakesh Agreement Establishing the World Trade Organization ("WTO Agreement"), there are provisions that regulate conflict between the WTO Agreement and the multilateral trade agreements in its Annexes. *See* Article XVI.3 of the WTO Agreement, between GATT 1994 and other Agreements in Annex 1A See, for example, the general interpretative note to Annex 1A., and between certain Agreements in Annex 1A (such as Agreement on Technical Barriers to Trade and Agreement on the Application of Sanitary and Phytosanitary Measures. *See* Article 1.5 of the Agreement on Technical Barriers to Trade.). There is no provision regulating conflict between Agreements in Annex 1A and Agreements in Annexes 1B or 1C to the WTO Agreement.

Ehsan Masood , **AFRICA SPLITS OVER BAR TO PLANT PATENTS**
UNESCO/ICSU World Conference on Science
http://helix.nature.com/wcs/b21.html>http://helix.nature.com/wcs/b21.html
11 March 1999 (see Nature Volume 398, page 99)

An Africa-wide consensus to restrict the patenting of plant varieties by overseas companies appears to be in disarray following a decision by 16 representatives of French-speaking African countries to break ranks.

These countries have agreed instead to recommend the latest version of the International Convention for the Protection of New Varieties of Plants, known as the UPOV convention.

The decision was made two weeks ago at a meeting of patent office officials from member states of the Organisation Africaine de la Propriété Intellectuelle (OAPI), the regional patent office for Francophone Africa. The meeting was held in the Central African Republic. Accession to the UPOV convention, which grants plant breeders intellectual-property rights over the commercialization of products such as seed, was also due to be discussed this week by 14 English-speaking African countries at a meeting organized by their regional patent office, the African Regional Industrial Property Organization (ARIPO), in Zimbabwe.

Zimbabwe and Kenya, which have a large community of plant breeders, are leading the calls for ARIPO states to ratify the UPOV convention. But environmentalist organizations such as the Canada-based Rural Advancement Foundation International are urging governments to stay out, on the grounds that ratification will prevent small farmers from saving seeds for re-use.

UPOV officials, however, point out that the convention allows subsistence farmers--those who grow crops to feed their families, but not to sell--and state-funded scientific research organizations to save seeds for replanting.

These developments will cast a shadow over an agreement reached in January by the heads of government of the 62-member Organization of African Unity (OAU) to restrict patents on plant varieties until an Africa-wide alternative system to patents has been developed.

This system, which is expected to be published in draft form later this month, will aim to divide the intellectual-property rights of new plant forms between plant breeders and indigenous communities that might have contributed to early varieties.

Johnson Ekpere, secretary-general of the Scientific, Technical and Research Commission of the OAU, says the decision by the organization's heads of state still stands. He says it was reached at a meeting of heads of government in Lusaka, Zambia, attended mainly by representatives of foreign ministries.

But Ekpere admits that details of this decision have not filtered down to science ministries and patent offices. "This is a case of the right hand not knowing what the left hand is doing," he says.

He describes as "unlikely" any attempts to ratify the UPOV convention in an African parliament. Mzondi Haviland Chirambo, director-general of ARIPO, agrees, and believes that ARIPO member states are unlikely to follow the lead set by OAPI countries.

Both Chirambo and Ekpere believe that African countries will want to delay new legislation until the outcome of a review on the relationship between TRIPS -- a World Trade Organization agreement on intellectual-property rights -- the UN biodiversity convention and the UPOV convention. The review is expected to be completed later this year.

All member countries of the World Trade Organization are required to frame their patent laws around TRIPS, which says that countries that prohibit the patenting of plant varieties must provide an alternative system of protecting the intellectual-property rights of plant breeders.

At the same time, however, the biodiversity convention is interpreted by some as suggesting that the benefits - including commercial benefits - from biodiversity should not be restricted to plant breeders, but should include those who may have contributed to a discovery in the past.

THE CONVENTION ON BIOLOGICAL DIVERSITY AND THE AGREEMENT ON TRADE-RELATED INTELLECTUAL PROPERTY RIGHTS (TRIPS): RELATIONSHIPS AND SYNERGIES

CONFERENCE OF THE PARTIES TO THE CONVENTION ON BIOLOGICAL DIVERSITY
Third meeting, Buenos Aires, Argentina
4 to 15 November 1996
UNEP/CBD/COP/3/23

1. INTRODUCTION

1. In response to a request by the second meeting of the Conference of the Parties (COP), this paper reviews synergies and relationships between the Convention on Biological Diversity and the Agreement on Trade-Related Intellectual Property Rights (TRIPS), part of the Agreements Establishing the World Trade Organisation (WTO Agreements) that were concluded in the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT). This paper also includes options for the third meeting of the COP to consider in preparing a possible input to the Committee on Trade and Environment (CTE) of the WTO.

2. The relationships between the TRIPS Agreement and the Convention on Biological Diversity are multifaceted and complex, as are the links between intellectual property rights (IPR) and the Convention. . . . The COP may wish to identify specific topics within this issue area for further work. The CTE of the WTO is discussing the relationship between the TRIPS Agreement and the sustainable development and protection of the environment, which creates a specific opportunity for exploring the relationship between the TRIPS Agreement and the Convention's objectives. . . .

2. BACKGROUND

4. In Decision II/12 on intellectual property rights, the COP asked the Executive Secretary to, inter alia, "[l]iaise with the Secretariat of the World Trade Organization to inform it of the goals and the ongoing work of the Convention on Biological Diversity and to invite the Secretariat of the World Trade Organization to assist in the preparation of a paper for the Conference of the Parties that identifies the synergies and relationship between the objectives of the Convention on Biological Diversity and the TRIPS Agreement".

5. The COP noted that "[t]his paper could be the basis for consideration by the third meeting of the Conference of the Parties in preparing a possible input for negotiations that are taking place in the Committee on Trade and Environment of the World Trade Organization."

6. A number of other items on the provisional agenda of the third meeting of the COP are relevant to the relationship between the Convention and the TRIPS Agreement. Most important is Item 14.1, a discussion of the impact of intellectual property rights systems (IPR systems) on the objectives of the Convention. . . . Also relevant is Item 11.1, regarding the implementation of Article 8(j) concerning the knowledge, innovations and practices of indigenous and local communities . . .

3. INTELLECTUAL PROPERTY RIGHTS - RELATED MEASURED IN THE CONVENTION ON BIOLOGICAL DIVERSITY AND THE TRIPS AGREEMENT

10. Intellectual property rights are the subject of the TRIPS Agreement, and they also figure prominently in the Convention on Biological Diversity. . . .

11. The TRIPS Agreement may only be authoritatively interpreted by the Ministerial Conference or the General Council, acting on the basis of a recommendation by the Council for TRIPS (Marrakesh Agreement Establishing the WTO, 1994, Article IX). These three bodies are composed of representatives of all WTO members. In addition, interpretations of the TRIPS Agreement may be addressed in the course of dispute settlement under the Understanding on Rules and Procedures Governing the Settlement of Disputes(Annex 2 to the Marrakesh Agreement, 1994).

3.1 Intellectual Property Rights and the Convention on Biological Diversity

12. The objectives of the Convention on Biological Diversity are: the conservation of biological diversity; the sustainable use of its components; and the fair and equitable sharing of the benefits arising out of the use of genetic resources (Article 1). The sharing of the benefits from the use of genetic resources is defined to include, inter alia, the "appropriate transfer of relevant technologies, taking into account all rights . . . To technologies" (Article 1). The reference to rights can be understood to include IPR. Thus, technology transfer is highlighted as a method for achieving one of the Convention's three principal objectives, and IPR are identified as a significant aspect of technology transfer.

13. The treatment of IPR was a contentious issue in the negotiations on the Convention. Many developing countries argued that the application of existing IPR systems hinders the transfer of technology to the developing world, and unfairly disregards the contributions of generations of farmers to the world's plant genetic resources, which underpin global food security. These countries objected to the expansion of IPR over new crop varieties and other products based on genetic resources, and proposed that the Convention provide for, or authorize, restrictions on IPR. For their part, some developed countries argued that strong universal protection of IPR would stimulate technology transfer and investment in research and development in developing countries, indirectly increasing the incentives to conserve biological diversity. The language on which negotiators eventually agreed does not entirely resolve these differing perspectives on the role of IPR in achieving the Convention's objectives.

14. [CBD] Article 16(1) requires each Party to provide and/or facilitate access and transfer to other Parties of technologies, including biotechnologies, that are relevant for conservation and sustainable use or that make use of genetic resources and are not significantly damaging to the environment. Each Party shall take measures "with the aim that Contracting Parties, in particular those that are developing countries, which provide genetic resources are provided access to and transfer of technology which makes use of those resources, on mutually agreed terms including technology protected by patents and other intellectual property rights" (Article 16(3)). The provisions of paragraphs 2 and 5 concerning IPR appear in this context.

15. Article 16(2), on the one hand, provides that technology transfer must be carried out "on terms which recognize and are consistent with the adequate and effective protection of intellectual property rights." The phrase "adequate and effective" is not defined. Article 16(5), on the other hand, provides that parties," recognizing that patents and other intellectual property rights may have an influence on the implementation of this Convention, shall cooperate in this regard subject to national legislation and international law in order to ensure that such rights are supportive of and do not run counter to its objectives."

16. Several of the Convention's provisions relating to access to and the sharing of benefits from genetic resources are also relevant to IPR. Article 15 recognizes that Parties have sovereign rights over their genetic resources and confirms that they have the authority to determine access through national legislation. Parties shall "endeavor to create conditions to facilitate access to genetic resources for environmentally sound uses by other Contracting Parties and not to impose restrictions that run counter to the objectives of this Convention." Access "shall be on mutually agreed terms," and shall be "subject to prior informed consent of the Contracting Party providing such resources, unless otherwise determined by that Party."

17. Where a Party provides genetic resources to another Party, the receiving Party "shall endeavor to develop and carry out scientific research based on [those] genetic resources . . . with the full participation of, and where possible in, [the providing Party]" (Article 15(6)). Similarly, Article 19(1) provides that Parties shall take appropriate measures to provide for the effective participation in biotechnological research by Parties, especially developing countries, that provide the genetic resources for such research, in such Parties where feasible. In general, each Party shall take measures "with the aim of sharing in a fair and equitable way the results of research and development and the benefits arising from the commercial and other utilization of genetic resources with the [Party] providing such resources" (Article 15 (7)). Such sharing shall be upon mutually agreed terms. (ibid.) Article 19(2) requires parties to "take all practicable measures to promote and advance priority access on a fair and equitable basis" for Parties providing genetic resources, especially developing countries "the results and benefits arising from biotechnologies based upon [those] genetic resources . . . on mutually agreed terms." The implementation of these provisions could involve the development of information that could be subject to patents or trade secrets. A number of other provisions involving technology, research and sharing of information could relate to IPR, such as Articles 12(c), 17, and 18 (*see* UNEP/CBD/COP/3/22).

18. The emphasis of Article 8(j) on knowledge and innovations makes it potentially relevant to IPR. It requires each Party as far as possible, as appropriate, and subject to its national legislation to: "respect, preserve and maintain knowledge, innovations and practices of indigenous and local communities embodying traditional lifestyles relevant for the conservation and sustainable use of biological diversity and promote their wider application with the approval and involvement of the holders of such knowledge, innovations and practices and encourage the equitable sharing of the benefits arising from the utilization of such knowledge, innovations and practices." Indeed, much discussion among the Parties has concerned the relationship between IPR and the knowledge and innovations of local and indigenous communities within the terms of Article 8(j).

19. Intellectual property rights are also relevant to the implementation of Article 10, which, inter alia, requires Parties, as far as possible and as appropriate, to integrate considerations of the conservation and sustainable use of biological resources into national decision-making, and to adopt measures relating to the use of biological resources to avoid or minimize effects on biological diversity. These provisions may be implicated to the extent that IPR has an impact on the use of biological resources; for example, through the application of patents to living modified organisms.

20. Article 14(b) requires the Parties, as far as possible and as appropriate, to introduce appropriate arrangements to ensure that they duly take into account the environmental consequences of their programmes and policies that are likely to have significant adverse effects on biological diversity. Effective implementation would likely involve a preliminary review of IPR policies to determine whether they are likely to have significant adverse impacts, and a further assessment if the answer to the preliminary inquiry is positive.

21. While IPR figure prominently in the Convention on Biological Diversity, the Convention's provisions relating to IPR are framed in general terms. For example, Article 16(5) states that the Parties generally must cooperate to ensure that IPR promote and do not run counter to the Convention's objectives, suggesting that the Parties have a general obligation to begin a process of consultation on the issue. At the national level, the Convention's language would encompass a variety of approaches to the treatment of IPR within frameworks for controlling both the access to and the benefit-sharing of genetic resources under the Convention, as long as these approaches are consistent with the counterpoised provisions of paragraphs 2 and 5 of Article 16. One approach, for instance, could be to provide for mutually agreed-upon terms for access to genetic resources that allocated IPR under TRIPS-compatible systems among the Parties. A Party could make access to its genetic resources conditional to the access-seeker's agreeing to relinquish some or all IPR over products derived from the genetic resources. Similarly, a Party might require access-seekers to agree to carry out joint research with source-country nationals, or to carry out research in the source country as a condition of access. This would likely be consistent with both the Convention and the IPR standards of the TRIPS Agreement (UNEP/CBD/COP/3/Inf.9, paragraph 78).

3.2 Intellectual Property Rights in the TRIPS Agreement

22. The Ministerial Declaration of Punta del Este launching the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade included provisions on trade-related aspects of IPR. Negotiations continued until the development of the Draft Final Act in December 1991, which was the basis, with relatively minor changes, for the final text of the Agreements Establishing the WTO including the TRIPs Agreement adopted at Marrakesh in April 1994. Some of the most important issues in negotiations concerned patents. The basic definition of patents novelty, inventive step and industrial applicability was never in question. There was, however, considerable disagreement over whether countries should be permitted to make generic exclusions from patentability. One controversial issue was concerned with whether there should be an obligation to make living organisms, particularly plants and animals, patentable. Another was concerned with whether countries should be able to exclude certain products and processes from patenting, in particular pharmaceuticals, agricultural chemicals and foodstuffs, on the grounds of public interest, national security, public health or nutrition.

23. The TRIPS Agreement that resulted from these negotiations is based in part on a recognition of the dual 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" (Preamble, paragraph 1). The Agreement requires all parties to meet certain minimum standards for protecting IPR, defined as including copyrights, patents, plant variety protection (PVP), industrial designs, geographic designations, the layout-design of integrated circuits, and trade secrets. The Agreement also requires parties to provide fair, effective judicial procedures and remedies for rights-holders claiming infringement (Articles 42-49). It provides developing countries with a five-year grace period to phase in most of the Agreement's requirements (Article 65). The least developed countries have an eleven-year grace period for implementing most obligations (Article 66).

24. The TRIPS Agreement requires WTO members to observe the principles of national treatment and most-favored nation with respect to IPR (Articles 3-4). For example, a country could not recognize patents on inventions by its nationals (its citizens and corporations) without doing the same for similar inventions by foreign nationals, neither could it discriminate among inventions by nationals of different foreign countries.

25. Of the types of IPR covered by the TRIPS Agreement, patents and PVP are those most likely to have an impact on the objectives of the Convention, although trade secrets and geographic indications may also have some effect. The TRIPS Agreement includes a definition of the basic characteristics of patents novelty, involving an inventive step or non-obviousness, and capable of industrial application or being "useful" (Article 27). Article 29 provides that WTO members must require patent applicants to disclose the invention such that a person skilled in the art could reproduce it. Article 31 sets out a number of conditions limiting the circumstances in which a government may authorize use of a patent against the will of the patent owner, subject to appropriate compensation (compulsory licensing).

26. The TRIPS Agreement requires countries to recognize patents on most products and processes, including pharmaceuticals, modified microorganisms, and "microbiological processes" (Article 27.3(b)). Furthermore, countries must protect plant varieties either through patents or an "effective sui generis system" or both (ibid.) The TRIPS Agreement leaves to each country's discretion whether to recognize patents on plants or animals, or "essentially biological [but not microbiological] processes for the production of plants or animals" (ibid.). The provisions of Article 27.3(b) will be reviewed in 1999, four years after the entry into force of the Agreements Establishing the WTO (ibid.)

27. WTO members may exclude products or processes from patenting where "the prevention within [national] territory of [their] commercial exploitation . . . is necessary to protect ordre public [public order] or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment" (Article 27.2). However, such an exclusion shall not be made "merely because the exploitation is prohibited by domestic law" (ibid.) This language is intended to make clear that products cannot be excluded from patentability merely because they have not yet been approved under normal health and safety regulatory procedures.

28. In addition countries "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). This provision was intended to allow for exceptions to exclusive rights, such as the use of the invention for experimental purposes.

29. The provisions of Article 27.3(b) on plant varieties appear to give WTO members considerable flexibility in designing *sui generis* systems for PVP. Provisions of the TRIPS Agreement on several other types of IPR in effect incorporate other existing international agreements by reference. Article 9 on copyrights, for instance, provides that WTO members shall comply with provisions of the Berne Convention. Article 27.3(b), in contrast, does not refer to either of the two versions of the principal international agreement concerning PVP, the International Union for the Protection of New Varieties of Plants (UPOV Convention). "Countries have thus been left greater flexibility in meeting their obligations in this area than would have been entailed by a specific reference to UPOV" (Otten 1994).

30. The Council for Trade-Related Aspects of Intellectual Property Rights (the TRIPS Council) is established under Article 68 to monitor the operation of the Agreement, monitor WTO Members' compliance with its terms, and provide a forum for consultations on trade-related aspects of IPR. In 1999, the TRIPS Council will review Article 27.3(b) of the TRIPS Agreement, which, as mentioned above, allows countries to exclude from patenting modified plants and animals and biological processes, and allows sui generis plant variety protection systems, either as an alternative or as an addition to plant patent protection.

31. The TRIPS Agreement provides that each Member shall notify the TRIPS Council of laws and regulations, and final judicial decisions and administrative rulings of general application pertaining to the subject matter of the Agreement (Article 63). If consultations with WIPO succeed in establishing a common register containing countries' laws and regulations, then the Council may waive the notification requirement in favor of using the register as a depository for such national measures (ibid.)

32. In sum, the TRIPS Agreement, while it establishes relatively detailed legal standards to be implemented at the national level, nevertheless permits flexibility in several relevant respects by allowing:

(a) variation in the details of patent procedure;

(b) exceptions from patenting where preventing commercial exploitation is necessary to avoid serious prejudice to the environment;

(c) sui generis systems of plant variety protection;

(d) choice as to whether to issue patents for modified plants or animals other than microorganisms; and

(e) variation in levels of IPR protection by setting minimum, but not maximum, standards.

33. Nothing in the TRIPS Agreement appears either to prevent or to promote the development of additional measures that provide for the sharing of benefits with countries and communities providing genetic resources or traditional knowledge, as long as those measures do not violate TRIPS minimum standards. The TRIPS negotiations did not address the question of whether new forms of protection are needed for indigenous and local communities that go beyond conventional IPR concepts (ibid.). Thus, intellectual property rights-like measures that provided control over knowledge that is non-novel or that does not involve an inventive step within the terms of patent law would likely be considered outside the scope of the requirements of the TRIPS Agreement. As a result, while any WTO member would be free to elaborate such measures that would apply within its jurisdiction, other WTO members would have no obligation to provide similar protection within their territories.

4. RELATIONSHIPS BETWEEN THE CONVENTION ON BIOLOGICAL DIVERSITY AND THE TRIPS AGREEMENT

34. Intellectual property rights are important under both the Convention on Biological Diversity and the TRIPS Agreement, but the two agreements approach them from very different perspectives. A large and growing number of countries are both Parties to the Convention and members of the WTO (156 Parties to the Convention on Biological Diversity as of 4 November 1996; 125 members of the WTO as of 23 October 1996). This creates a powerful motivation to develop a mutually supportive relationship and to avoid conflicts. Both the COP and the WTO are beginning to explore the complex interrelationships between IPR and biological diversity. At this stage, the most critical issue for the relationship between the Convention on Biological Diversity and the TRIPS Agreement appears to be whether and how to establish procedures for consultation and cooperation between the bodies associated with the two agreements.

35. Both the Convention on Biological Diversity and the TRIPS Agreement allow a significant degree of flexibility in national implementation. This suggests that there is potential for complementary and perhaps synergistic implementation. Because both agreements entered into force recently and discussions of the relationships between IPR and biological diversity are preliminary, specific legal or policy mechanisms that would create synergies between the two agreements or their implementing measures have yet to be identified. Nevertheless, some general areas for complementarity have been noted.

36. For example, mutually agreed-upon terms for access to genetic resources could allocate IPR as part of the benefits to be shared among parties to an agreement on genetic resources, as noted previously (see paragraph 21 above). Such IPR could be defined under TRIPS-compatible IPR systems.

37. Another possibility is for the Convention and the TRIPS Agreement to develop procedures for exchanging relevant information. Article 16 of the Convention on Biological Diversity, and possibly others as well, prescribes IPR obligations for the Parties. The implementation of these obligations would likely fall within the scope of the notification requirement found in Article 63 of the TRIPs Agreement (see paragraph 31 above). Countries implementing measures that implicate both agreements such as rules requiring patent applications to disclose the country of origin of biological material might report them to the TRIPS Council while at the same time disclosing the same information to the clearing-house mechanism for scientific and technical cooperation established under Article 18(3) of the Convention, or including information regarding the measures in the national reports required under Article 26 of the Convention. It may be useful to note that the WTO and the World Intellectual Property Organization (WIPO) recently concluded an agreement formalizing arrangements for the exchange information, in particular copies of IPR laws and regulations received by the two organizations (WIPO/WTO 1995).

38. Other policy and legal proposals involving interrelated implementation of both the Convention on Biological Diversity and the TRIPS Agreement may warrant further examination. One proposal, for example, is to require or encourage disclosure in patent applications of the country and community of origin for genetic resources and informal knowledge used to develop the invention. This has been proposed by a number of commentators (*e.g.*, Gadgil and Devasia 1995; Hendrickx et al. 1994; Gollin 1993). Some evidence suggests that such disclosures are already common practice in filing patent applications. Possible elements of such a requirement, which could help to encourage the implementation of both Article 15 and Article 8(j), are outlined in the Executive Secretary's background paper on Article 8(j). More information concerning this proposal, including examples of patent applications, is included as Annex I to this paper.

39. In spite of the flexibility of the Convention and the TRIPS Agreement, and the potential for synergies, there is still a possibility that conflicts could arise (Downes 1995). For example, national measures to promote technology transfer under Article 16 might raise most-favored nation issues if Convention Parties and non-Parties were treated differently, might raise national-treatment issues if foreign nationals received less favorable treatment, and might raise TRIPS issues if owners of proprietary technology were compelled to license technologies on grounds other than those prescribed in the TRIPS Agreement.

40. Looking to the provisions of the agreements regarding conflicts, Article 22(1) of the Convention provides that its provisions "shall not affect [a Party's] rights and obligations . . . deriving from any existing international agreement, except where the exercise of those rights and obligations would cause a serious damage or threat to biological diversity." It is not clear how this Article would apply in the case of conflicts with the TRIPS Agreement. The TRIPS Agreement contains no explicit reference to its relationship to the Convention on Biological Diversity or any other environmental agreement.

41. If WTO members cannot resolve disagreements regarding the implementation of the TRIPS Agreement through consultations, one member may bring a complaint against another for failure to meet its obligations, using the dispute resolution procedures generally applicable for WTO members (Article 64). In certain circumstances, a member prevailing in a dispute may be authorized to take measures for compensation and suspension of concessions. While decisions in such dispute-resolution proceedings do not establish legal precedents, as a practical matter members may look to them when interpreting terms of the Agreement in the future. To date, there have been five cases in which the dispute-settlement mechanism has been initiated regarding TRIPS matters; none of these cases has reached the panel stage as yet.

42. If Parties to the Convention have a dispute about its interpretation or application, they may seek solution by negotiation, by the mediation of a third party, by conciliation, or (if they agree to be bound by such a means of dispute settlement) by arbitration or submission of the dispute to the International Court of Justice (Article 27). These procedures have not yet been invoked by a Convention Party. Like the WTO procedures, dispute-resolution procedures for the Convention emphasize avoidance of direct conflict by requiring other steps, such as negotiation.

43. There are several possible scenarios for conflict. A dispute might arise between countries that are both Convention Parties and WTO members; or between a country that is a Convention Party and a WTO member, and a country that is either a WTO member or a Convention Party. A conflict concerning the two agreements would presumably involve a claim, in a forum associated with one of the instruments, that a country had violated its obligations, countered by a defense that the alleged violation constituted implementation of the other instrument, and was obligated or authorized by it. In such disputes, it is likely that a forum associated with one instrument would need an interpretation of the other agreement. In such a case, it is unclear how a dispute-resolution proceeding would reach such a determination; neither instrument provides for such an eventuality. The absence of a clear mechanism for reconciling perceived differences further emphasizes the value of cooperation to avoid such differences. . . .

49. The CTE's agenda includes ten items. Of these, several are particularly relevant to the subject of this paper. Most important is item 8, "[r]elevant provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights." Also significant is item 1, "[t]he relationship between provisions of the multilateral trading system and trade measures for environmental purposes, including those pursuant to multilateral environmental agreements". Potentially relevant is item 2, "[t]he relationship between environmental policies relevant to trade and environmental measures with significant trade effects and the provisions of the multilateral trading system." . . . Discussions to date have been preliminary in nature, and have focused on ideas put forward by some delegations on the following issue areas:

(a) the protection of rights to biological resources and measures to ensure the equitable sharing of benefits from patentable products derived from these resources. This has included considerable discussion of protecting the interests of indigenous peoples and enhancing their ability to protect and preserve biological diversity;

(b) methods (such as patent restrictions) for discouraging the development and exploitation of environmentally harmful products. One area of concern has been IPR as to genetically modified organisms, as an ethical as well as an environmental issue; and

(c) the appropriate level of IPR protection, in light of the impact of such protection, on the development of environmentally sound technology (EST), and on access to it and transfer of it. On the one hand, some developing-country delegates have called for reforms to TRIPS to facilitate the transfer of EST, while some developed-country representatives have argued that IPR are in fact essential to the development of EST and, therefore, to environmental protection. There has also been discussion of the impact of IPR on both developing countries and the environment as applied to technologies that are restricted or otherwise affected by measures pursuant to multilateral environmental agreements.

55. In these discussions, a number of WTO members have highlighted the importance of reconciling TRIPS and its IPR objectives with the CBD objectives of equitable sharing and sustainability. Other delegations do not see any irreconcilability between the two agreements. Some delegations would prefer to limit discussion of the second issue, relating to environmentally harmful products, anticipating that the negotiation of a biosafety protocol to the Convention on Biological Diversity may address many relevant concerns. . . .

57. As discussed above, the TRIPS Council will review Article 27.3(b) of the TRIPS which addresses the exclusion from patentability of plants and animals, the protection of plant varieties, and the right of countries to develop their own system to protect plant varieties in 1999. It is possible that the CTE might study this issue in preparation for the 1999 review.

6. OPTIONS FOR FUTURE WORK

58. In light of the synergies and relationships discussed above, the COP might wish to consider the following options relating to a possible input to the CTE:

(a) Forwarding to the CTE relevant decisions and discussions of the COP contained in the chair's report, as well as this and other relevant papers prepared by the Executive Secretary. Relevant papers might include this study, as well as The Impact of Intellectual Property Rights Systems on the Conservation and Sustainable Use of Biological Diversity and on the Equitable Sharing of Benefits From Its Use: A Preliminary Study, and/or Knowledge, Innovations and Practices of Indigenous and Local Communities: Implementation of Article 8(j).

(b) Commending the CTE and WTO Secretariat for de-restricting and transmitting documents relating to the work of the CTE, inviting the WTO to continue to transmit future relevant documents as they are produced, and requesting the Convention Secretariat to reciprocate by transmitting similar documents to the CTE in the future.

(c) Seeking a role in the deliberations of the CTE, possibly by applying to participate in the CTE as an observer.

(d) Suggesting that Parties that are also WTO members notify the TRIPS Council (pursuant to the notification requirement of Article 63 of the TRIPS Agreement) of those laws and regulations implementing the provisions relating to IPR of Article 16 of the Convention on Biological Diversity. The COP might also wish to suggest that those Parties simultaneously notify the Secretariat of the Convention so that such measures can be communicated through the clearing-house mechanism.

(e) Exploring additional ways to cooperate with the WTO on exchanging information.

(f) Continuing its exploration of issues relating to IPR by developing informational inputs for the CTE regarding the impact of patenting of genetically modified organisms, including animals and plants and essentially biological processes, in preparation for the 1999 review by the TRIPS Council of Article 27.3(b) of the TRIPS Agreement.

(g) Sending a statement to the WTO CTE. The statement might refer to one or more of the following points:

(i) the large number of countries that are both Parties to the Convention on Biological Diversity and members of the WTO;

(ii) the important interrelationships between the CBD and the WTO agreements, including the TRIPS Agreement; noting that the interrelationships extend beyond TRIPS, although TRIPS is the focus of this statement;

(iii) the international and national processes of implementation now underway for both agreements;

(iv) the significant potential for complementarities in implementing the two agreements, as reflected in the Executive Secretary's report;

(v) the important roles of both institutions in the area of IPR and biological diversity, in cooperation with other relevant international institutions and instruments;

(vi) an invitation to the CTE to present questions to the COP regarding the relationship of IPR and the obligations of the TRIPS Agreement and the Convention's objectives.

(h) The COP might wish to continue exploring the relationships between trade and trade law and policy and the achievement of the objectives of the Convention, possibly with particular attention to Articles of the Convention that appear most closely linked to these relationships, such as articles 5, 7(c), 8(l), or 11. The COP might wish to draw the attention of the CTE to any plans for such work.

NOTES AND QUESTIONS

1. Is there a fundamental clash between technological development and environmental protection in the twenty-first century? *See* Charles R. McManis, *The Interface Between International Intellectual Property And Environmental Protection: Biodiversity And Biotechnology,* 76 Wash. U. L. Q. 255 (1998) and hopeful signs in the juxtaposition of biotechnology and biodiversity.

2. Post-Modern Approaches. For an interesting example of how post-modern authors view the issues of conservation and human development and the justaposition of modern and traditional civilizations, *see*, *e.g.*, Virginia D. Nazarea, CULTURAL MEMORY AND BIODIVERSITY (Tucson 1998)

Convention on Biological Diversity
Comments on Improving Identification of Prior Art Recommendations on Traditional Knowledge Relating to Biological Diversity
Submitted to the United States Patent and Trademark Office
August 2, 1999

These comments are submitted to the United States Patent and Trademark Office (PTO) in response to its May 27, 1999 Federal Register notice (64 Fed. Reg. 28803) requesting input from the public on the PTO's procedures and practices for identifying prior art during the examination of a patent application. They have been prepared by the Center for International Environmental Law (CIEL) on its own behalf, and also on behalf of the Coordinating Body of Indigenous Organizations of the Amazon Basin (COICA), the Coalition for Amazonian Peoples and Their Environment (Amazon Coalition), and the Indigenous Environmental Network (IEN)'s North American Indigenous Peoples Biodiversity Project (NAIP-B).

CIEL is a non-profit organization based in Washington, D.C. that promotes sustainable and equitable development and environmental protection through the development and implementation of international law. COICA, based in Ecuador, is the coordinating body for more than 400 indigenous tribes that are members of nine national organizations of the countries in the Amazon region. The Amazon Coalition, based in Washington, D.C., is comprised of eighty non-governmental organizations dedicated to strengthening and broadening the alliance between indigenous peoples of the Amazon and groups who share their concerns for the future of the Amazon and its peoples. The Indigenous Environmental Network is an alliance of grassroots indigenous peoples groups whose mission is to protect the natural world by by maintaining and strengthening traditional Native American laws and teachings. …

I. The Role of Traditional and Informal Knowledge in Technological Innovation

A significant part of the intellectual base for innovation in certain fields of technology has come from outside the formal Western science-based research and development process. In particular, the informal and traditional knowledge developed, elaborated and maintained by indigenous and traditional societies has been an important resource in technologies based upon the manipulation, adaptation or use of biological resources. Traditional knowledge is valuable in several ways. It informs resource management systems and practices of resource use that often have relatively low impacts upon biological resources. The existence of these systems and practices explains in part why these peoples are the custodians of much of the world's richest stores of biodiversity. Traditional knowledge also comprises extensive knowledge of the practical uses of these resources, as sources of medicines, foodstuffs, and other goods. As a result, traditional knowledge is itself a valuable resource not only for these communities but also for outsiders, including academic researchers, government agencies, and commercial firms.

Traditional knowledge has been used in a number of industries as a starting point for new product development in sectors such as specialty food and beverages, pharmaceuticals, agriculture, horticulture, and personal care and cosmetics. Relevant technology categories include—but are not necessarily limited to—fuels, sugars, cleaning, plant and animal husbandry, drugs and body treating compositions, foods, fabrics and textiles, perfumes, multicellular organisms and their unmodified parts, and chemistry, including carbon and

organic compounds, natural resins, molecular biology, microbiology, and analytical and immunological testing.

The value of traditional knowledge is well demonstrated in the pharmaceutical sector. A recent analysis found that "57% of the top 150 brand names prescribed during [a six month period in 1993] contained at least one major active compound now or once derived or patterned after compounds derived from biological diversity." Of the 35 plant-derived drugs included in the top 150, 33—or 94%—contained at least one compound that "had or has a demonstrated use in traditional medicine related to the primary therapeutic use for which a physician might prescribe the drug."

For example, quinine was originally derived from cinchona bark, which Amazonian indigenous peoples used as a remedy for malaria. Quinine and its chemical analogs remain "the bulk of our antimalarial armamentarium." Herbal remedies currently being researched for pharmaceutical applications include qing hao su (artemisinin), a Chinese traditional medical preparation from the leaves of the plant *Artemisia annua*, which has antimalarial properties; the bark of the rainforest tree *Alphitonia zizyphoides,* used by traditional Samoan healers as a tonic; and *Homolanthus nutans*, from which Samoan healers prepare an infusion used to treat viral hepatitis. A preliminary analysis of 74 plant species used medicinally by traditional Samoan healers revealed that "[o]ver 86% of the plants exhibited high levels of pharmacological activity." Researchers have catalogued 2,095 plant species used medicinally by Native Americans.

The underlying mission of United States intellectual property law is "[t]o promote the progress of science and useful arts." The award and enforcement of the patent right is one way that the law pursues its mission. But the financial rewards flowing from the award of exclusive rights are an incident of the mission rather than an end in themselves. The disclosure to the public of the basis for the invention, through publication of the application upon award of the patent, is another important mechanism—one which benefits a constituency beyond the patent owner alone. The proper acknowledgment of prior art in the application provides a complete and accurate history of the invention's origin, which is valuable both as a resource for future innovators and as recognition accorded to the predecessors whose intellectual labors made the invention possible.

In this context, disclosure of traditional knowledge that forms part of the prior art "promotes the progress of science and useful arts" in at least two ways. First, by according recognition to knowledge created by cultures whose contributions have often been unrecognized and even denigrated, it provides a positive incentive for the maintenance of traditional knowledge systems. Positive incentives are vital to stem the rapid loss of these systems resulting from factors such as cultural assimilation and the continuing destruction of local biological resources and ecosystems with which they are intimately linked. Second, creating positive incentives to maintain these knowledge systems in turn can create an incentive for the knowledge holders to continue the traditional practices by which they have maintained high levels of biodiversity in their homelands over many generations. Indeed, this linkage led the drafters of the Convention on Biological Diversity to include a requirement that governments take steps to respect, preserve and maintain traditional knowledge of such peoples; to promote the wider application of such knowledge, contingent on the approval and involvement of its

holders; and to encourage the equitable sharing of the benefits arising from utilization of traditional knowledge.

II. Traditional Knowledge as Prior Art Relevant to the Statutory Bar of 35 U.S.C. Section 102

Section 102 of the Patent Act, 35 U.S.C. Section 102, establishes a "statutory bar" against the grant of a patent in certain specified conditions. Several provisions of section 102 are particularly relevant to the treatment of traditional knowledge as prior art.

Subsections 102(a) and (b) provide that a patent shall not be granted if the invention was patented or described in a printed publication in either the United States or a foreign country, either before the date of the claimed invention or more than a year before the date of the patent application. These subsections also provide that a patent shall not be granted if the invention was "known or used by others in this country." Unpublished or unpatented knowledge or use in a foreign country is not relevant to patentability under these subsections.

Subsection 102(f) precludes the award of a patent when the applicant did not invent the subject matter sought to be patented. Unlike subsections 102(a) and (b), subsection 102(f) contains no limitations as to geographic scope. Consequently, any information—published or unpublished, domestic or foreign—demonstrating that the applicant did not himself invent the subject matter claimed in the application will be material to patentability under subsection 102(f).

Patent applications whose claims merely duplicate processes known to indigenous and local communities will thus fail the statutory bar of subsection 102(f) and should be rejected. Similarly, traditional knowledge may be material in examining applications containing claims consisting in part of such knowledge. As described in Part III below, current PTO procedures and requirements relating to prior art do not adequately provide for examination of such applications.

Examiners must make a "thorough investigation of the *available* prior art relating to the subject matter" of the claimed invention. Thus, the primary qualifying factor in an examiner's consideration of section 102(f) prior art should be whether it is "available" to her. Prior art will be available when an examiner can access it on her own through written texts, data bases, published herbarium specimens or other sources, or when it is provided by the applicant under the applicant's duty to disclose to the PTO all information known by that individual to be material to patentability. Part IV, below, suggests several simple procedures for ensuring that such information is readily available to examiners, thus reducing the extent to which applications seeking to misappropriate traditional knowledge can slip through the examination process.

III. Problems With the Current Approach: Identifying Prior Art and Applying the Statutory Bar

Recent controversies over United States patents based on traditional knowledge have raised concerns that the patent system as it is presently implemented does not adequately account for traditional knowledge as prior art. The PTO has issued patents that are neither novel nor non-obvious in the light of

traditional knowledge. These patents allow those who have no right to claim traditional knowledge to wrongly take it out of the public domain, and they acknowledge fairly indigenous contributions to world culture and knowledge. Their issuance has provoked sharp protests by the peoples and countries from whom the knowledge or resources were acquired.

A recent patent on turmeric provides a well publicized example. In 1995, researchers at the University of Mississippi Medical Center obtained a United States patent for the use of turmeric as a healing agent. This patent aroused considerable public controversy, because turmeric has been used to promote healing of wounds for generations by people in India. Because the patent claims were for processes that were not new, but were part of traditional Indian knowledge in the public domain, the PTO canceled all six of the patent claims as a result of a reexamination requested by India's Council of Scientific and Industrial Research (CSIR).

The turmeric case demonstrates that traditional knowledge constitutes prior art when a patent claim merely restates in whole or part processes that have long been held within the knowledge systems of indigenous and local communities. However, because the turmeric patent "slipped by" examiners who were not apprised of, and did not seek out, the available prior art, the burden was placed on the knowledge holders to protect their traditional knowledge, through the reexamination process. Yet developing countries and indigenous and local communities have limited means for discovering that their resources are being improperly claimed by United States commercial interests, and they have little chance of learning about an application until after the patent has been awarded. At that point, their least expensive and simplest recourse is to file and prosecute a reexamination at the PTO. Yet participation in such proceedings requires financial resources and access to legal expertise that are not readily available to developing countries and their inhabitants. Many indigenous and local communities in these countries are poor and isolated. Thousands upon thousands of villages have rich traditional knowledge systems attuned to local conditions, yet they lack communication facilities, access to information, and expertise.

Moreover, the basis for reexamination is limited: examiners may only consider newly discovered prior art patents and printed publications in a reexamination proceeding. As a result, indigenous and local communities in developing countries have no opportunity to bring attention to unwritten knowledge, practices, and innovations that demonstrate lack of novelty or non-obviousness. This is a significant drawback because—given that many of these traditions are oral and poorly documented in the extant scientific literature—published accounts may not have existed at the time the original patent application was filed.

In the turmeric case, a national scientific organization from a large developing country with a substantial scientific community intervened. The CSIR was able to produce a substantial body of publications that documented the long-standing use of turmeric by local communities in India. That fact demonstrated that (1) the examiner during the patent's original prosecution failed to investigate all of the available prior art relating to the subject matter and (2) the applicant failed to disclose adequately all of the information that was material to patentability.

The growing sense in developing countries that patent systems are not fairly acknowledging contributions from their jurisdictions has led some developing countries to adopt restrictions on access to knowledge and biological resources. These restrictions could interfere with the very progress of science that patent law is supposed to encourage. The Philippines has enacted regulations strictly controlling access to biological specimens, which some critics complain has unnecessarily restricted scientific research and exchange. Two Brazilian states have adopted laws requiring foreign researchers to sign contracts requiring them to pay "bioroyalties" on any income they derive from local plants, and the Brazilian Congress is considering similar legislation.

The controversy could affect international standards for intellectual property as well. For instance, an important policy goal of the United States is to promote multilateral agreement on the definition and enforcement of strong intellectual property rights systems worldwide. Major progress toward that goal is reflected in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) which binds the 130-plus members of the World Trade Organization Agreement. However, the growing resistance on the part of many developing countries—based in part on perceptions among them that TRIPS standards facilitate the efforts of industrialized countries to misappropriate their traditional knowledge—has led to serious opposition to the implementation or strengthening of the Agreement.

IV. Recommendations

PTO examiners are obligated to access and evaluate prior art sufficient to ensure that applicants receive patents only for their inventions, and to prevent applicants from patenting subject matter that is broader than what they actually invented. This part suggests modifications to existing procedures that will respond to the problems identified in Part III and enable examiners to carry out their mandate more effectively. …

A. Elaboration of Disclosure Requirements

As part of their "duty of candor and good faith," each individual associated with the filing and prosecution of a patent application has the duty to disclose to the PTO all information known by that individual to be material to patentability. Among the categories of "material" information is information that establishes, alone or in combination with other information, a prima facie case of unpatentability. Information is also material if it refutes or is inconsistent with a position the applicant takes in asserting an argument of patentability.

Such material information can include descriptions of traditional knowledge from sources outside the United States contained in printed publications available prior to the date of invention or more than one year prior to the application date. It can also include any information relating to traditional knowledge from any source demonstrating that the applicant did not himself invent the subject matter sought to be patented. And it can include information regarding traditional knowledge from a source within United States jurisdiction indicating that the invention was known or used more than one year prior to the

date of application or prior to the claimed date of invention.

The PTO should establish the following four specific requirements to help ensure that examiners have access to such material information.

1. Applicants Must Disclose Traditional Knowledge Used in Invention

Any traditional knowledge that the applicant used in the process of discovering or creating the applied-for subject ma tter should presumptively be considered material to patentability and therefore should be subject to the requirement of disclosure. The disclosure should not be limited to printed publications or patents. Instead, it should also disclose other sources of material information—particularly, unpublished traditional knowledge that may qualify as section 102(f) prior art, as discussed in Part II above.

2. Applicants Must Conduct Prior Art Searches of Traditional Knowledge

Because applicants will likely have conducted extensive research in the country and communities where the knowledge is held, they will often have more ready access to traditional knowledge prior art than will examiners. Accordingly, it will generally be most cost-effective for applicants themselves to conduct prior art searches concerning any traditional knowledge or resources they utilize in their subject matter. Such searches should include all relevant publications, including databases, herbarium specimens, etc., that pertain to the traditional knowledge, especially those publications prepared in the source country. Searches should also review any orally transmitted traditional knowledge, practices, or innovations of indigenous peoples relevant to the subject matter, again consistent with section 102(f). The results of these searches should be fully reported along with the patent application.

3. Applicants Must Disclose Country and Geographical Location of Knowledge and Related Resources

Applicants should disclose the country and exact geographical location from which the knowledge or related resources (e.g. plants identified as medicinal on the basis of traditional knowledge) were obtained. This will help guide the examiner in his search for section 102(a) or (b) prior art printed publications, including database searches.

Disclosure of the exact geographical source of living resources can also be useful for evaluating the patentability as well as enablement with respect to naturally based products, because the specific chemistry of plants may depend on the local environment (especially the soil) from which they originated. Additionally, such disclosures could assist the examiner in the event it becomes necessary to corroborate or obtain more information about non-published section 102(f) prior art that documents traditional knowledge.

4. Applicants Must Certify Their Compliance with Applicable Laws

Applicants who utilize traditional knowledge or resources in their

inventions should certify that the knowledge or resources were acquired in full compliance with the local laws of the source jurisdiction. The certification should include contact information for any local authorities from whom authorization for exploitation of the knowledge was obtained. In situations in which they believe it necessary to corroborate a certification, examiners should also be able to request the texts of any agreements the applicant entered into with local authorities or communities that provided for benefits sharing or acknowledgment of the contribution of indigenous and local communities to development of the subject matter.

Such certification would assist examiners in evaluating whether the applied-for subject matter was truly novel and nonobvious. Moreover, it would provide examiners with the means to seek further information and clarification from the local peoples and authorities from whom traditional knowledge was acquired, should the examiner believe such further information would assist him in the prosecution of the application. This latter benefit would also comport with the enablement requirements of 35 U.S.C. Section 112. Because certification would serve to assure those practiced in the art that they could learn where and how to access the traditional knowledge or resources, the provision of certified information by an applicant would be analogous to a biotechnology applicant fulfilling the deposit requirements for biological material pursuant to 37 C.F.R. ß 1.801 *et seq*. and the Budapest Treaty.

B. Elaboration of Examiner Search Procedures

In addition to changes in disclosure requirements, the examination procedure could also be modified through several specific steps that would more effectively screen patents that misappropriate traditional knowledge. These include reviewing accessible databases and other reference sources, integrating the guidelines for international and international-type searches into normal examination procedure, and consulting with expert institutions regarding plant patent applications.

1. Examiners Should Review All Accessible Databases, Registries and Other Sources of Information on Traditional Knowledge

When prosecuting a patent application, examiners are required to make a "thorough investigation of the available prior art relating to the subject matter of the claimed invention." The examination must be complete with respect to the patentability of the invention as claimed. A "complete" examination will thus include a review of all traditional knowledge that may have contributed to the invention of the subject matter, to ascertain whether all the claims for the subject matter are truly novel and nonobvious.

Important gateways to such prior art are found in electronic databases and registries containing data regarding traditional knowledge, ethnobotany, ethnopharmacology, and the commercial use of biological resources from developing countries. Database searches can serve to alert patent examiners that prior art in the form of traditional knowledge may exist that is material to the patentability of an applied-for invention. Where necessary, examiners can then

make further inquiries of the applicant and/or governments and other entities in the source countries.… [The websites described above are listed in the Appendix attached to these Comments.]

2. The Rules and Guidelines Governing "International-Type Searches Should Be Integrated into the Examination Process for National Applications.

Examination procedures should be revised to integrate more effectively the guidelines for international-type searches into the examination process for patent applications. Those rules and guidelines treat traditional knowledge prior art more flexibly than do PTO examiners under their current practices.

Examiners must already perform an "international-type" search as part of every examination of a national application. In practice, examiners perform international-type searches only for applications that enter the national stage from international applications. However, 37 C.F.R. Section 1.9 defines a "national application" to include any U.S. application for patent filed under 35 U.S.C. Section 111, not only applications entering the national stage from international applications. Consequently, the international-type search must be performed on *all* U.S. patents filed on and after June 1, 1978. Failure of examiners to perform such searches constitutes a failure to perform a statutory duty.

An "international-type" search is an international search as defined under the Patent Cooperation Treaty (PCT). Carried out on a national application, it is similar to an international search. Such a search is required as part of the United States' implementation of the PCT. Like other international treaties ratified by the United States, the PCT is the "supreme law of the land," on a par with U.S. statutes. Consequently, the Rules of Practice in Patent Cases incorporates by reference the relevant provisions of the PCT and PCT Rules when discussing the terms of international and international-type searches. Patent examiners prosecuting national applications are thus obligated to use PCT-stipulated rules when fulfilling the international-type search requirement.

According to Article 15.2 of the PCT, the objective of the international search is to discover relevant prior art. For the purposes of Article 15.2, relevant prior art is everything that has been made available to the public anywhere in the world by means of written disclosure, and which can be of assistance in determining that a claimed invention is novel or nonobvious. Oral disclosure, use, exhibition or other means of disclosure are not relevant prior art for the purposes of an international search unless substantiated by a written disclosure. However, "[t]he date on which the written disclosure was made available to the public may have been *after* the filing date of the international application."

In the context of a domestic patent application claim based wholly or partly upon traditional knowledge, this latter provision means that the traditional knowledge qualifies as prior art when it has been published in some form, even if that publication occurs after the application date. Orally transmitted traditional knowledge in itself would not qualify as prior art. However, it would qualify if it was collected in a database or printed in a publication, even if the data did not become available in that form until after the patent application had been filed. In a sense, this feature of the PCT international-type search rules helps put into effect the statutory bar of sub-section 102(f), insofar as it is not subject to the same publication date restrictions as is prior art under subsections 102(a) or (b).

C. Modification of Disclosure Requirements and Examination Procedures for Plant Patents

While they form a very small proportion of patents granted in the United States, plant patents continue to provide some companies with an avenue for acquiring rights relating to botanical resources, including those belonging to indigenous and local communities. The Plant Patent Act, 35 USC Section 161 *et seq.*, was intended to recognize and protect inventions of the plant breeder who has worked "in aid of nature." Consequently, when a plant patent applicant attempts to patent a newly found plant, he must "particularly point out the location and character of the area where the plant was discovered." The strict implementation of this requirement is an important means for ensuring compliance with the provision of the Plant Patent Act that prevents the award of a patent to one who discovers a previously unknown variety that already exists in the wild.

1. The "Ayahuasca" Patent Controversy

The failure to implement this requirement adequately contributed to the award of one of the most controversial United States plant patents in recent memory. In 1986, an American entrepreneur obtained a U.S. plant patent on a purported variety of the "ayahuasca" vine, *Banisteriopsis caapi*, which he dubbed "Da Vine." In his application, he stated merely that "[t]his plant was discovered growing in a domestic garden in the Amazon rain-forest of South America." That vague disclosure provided the patent examiner with no useful information whatsoever for evaluating or verifying whether "Da Vine" originated from cultivated or uncultivated stock, and whether it thus satisfied the prohibition against patenting wild plants.

In fact, *B. caapi* grows wild throughout the Amazon basin, and is also cultivated by dozens of indigenous tribes who inhabit the rainforest there. Because the plant has been widely dispersed by generations of indigenous peoples, it is not possible to pinpoint exactly where the species originated, or whether individual plants that are growing in an uncultivated state are descended from naturally occurring stock or stock that was once propagated by humans. As a result, identical forms of the plant can be found growing both wild and in or near the villages of indigenous peoples. This phenomenon makes it extremely difficult or impossible to ascertain whether a given form of *B. caapi* represents cultivated or uncultivated stock.

If the examiner had required a sufficiently detailed disclosure, he might have learned before the patent was granted that "Da Vine" was identical to varieties of *B. caapi* that grow wild throughout the region. With a basis for denying the application, the PTO could have avoided the intense controversy that this patent aroused when Amazonian indigenous peoples learned that a plant that is sacred and central to the religions of many Amazonian tribes was the subject of a private property claim in the United States.

2. Applicants Should Provide a Full Accounting

To avoid future mishaps of this kind, applicants seeking plant patents for putative new varieties of tropical species such as *B. caapi* must provide detailed, specific accounts of the precise location where the original specimen or parent stock of the plant was found, including the circumstances under which it was discovered, consistent with 37 CFR Section 1.163(a). The account should also include the date and full name of the person or group from whom the specimen was acquired, and the detailed circumstances surrounding its acquisition. This will aid examiners in corroborating whether the subject matter is a wild plant. It will also lessen the possibility that specimens were fraudulently or illegally obtained. To that end, an applicant should attach to his disclosure an affirmation or written statement from the source person that contains the person's prior informed consent. Applicants should also provide a certification that they complied with all laws of the source country, and obtained all required permits or licenses, when they collected the specimen and removed it from the source country. Additionally, they should provide contact information for the relevant government authorities in the source country who have jurisdiction over the collecting and exporting of the subject plant, to make it easier for the examiner to validate the information provided or obtain additional information as needed.

Applications that do not fully disclose all information necessary to evaluate whether the subject matter is truly new and distinct fail to fulfill the applicant's legal "duty of candor and good faith." Such applications should automatically be rejected, because if they are approved, prior art in the form of printed publications may not be available to support a reexamination request, leaving affected indigenous peoples with no avenue for challenging a wrongly issued patent. …

4. Avoiding Abuse of the System is Good Policy

The rules and interpretations proposed here would increase the burden on applicants who seek to patent the botanical resources of developing countries. However, any increased burden would be offset by the benefits derived from reducing the opportunity for abuse of the system, which is presently significant. Such abuses interfere with the achievement of the mission of the patent law—to encourage progress in science and useful arts. The result of such abuses is the improper removal of information from the public domain and the failure to recognize the contributions to beneficial universal knowledge made by excluded groups that sorely lack incentives to continue conserving and adding to their knowledge.

The political ramifications from these abuses can thwart policy initiatives that are important to the United States government. The ayahuasca case provides a useful illustration. The ayahuasca vine that was the subject of the "Da Vine" patent is revered as a sacred plant by indigenous peoples throughout the Amazon region. It has been likened by them to the Christian cross or the Eucharist, and has been an essential ingredient in their religious and healing ceremonies for generations. When indigenous groups learned of the "Da Vine" patent' s existence in 1994, they were insulted and outraged that their sacred symbol could be commodified and privatized by a foreigner. Disinformation and confusion

about the legal implications of the patent were rife, and the controversy eventually took on international proportions, involving the U.S. Embassy in Ecuador, the Inter-American Foundation, and numerous national and international environmental and human rights groups, amid charges and counter charges of deceit, "bio-piracy" and terrorism. Ultimately, the patent led to a setback for a significant United States trade initiative, when the Ecuadorian legislature — influenced by indigenous groups who feared the implications of a U.S. patent on their domestic use of ayahuasca—voted to reject a proposed bilateral intellectual property rights agreement with the United States. Had the original examination of the "Da Vine" patent been prosecuted under procedures such as those recommended here, these negative developments could likely have been avoided.

D. Consideration of Moral Concerns

The ayahuasca case raises additional concerns that go beyond the PTO's treatment of prior art. As just noted, the "Da Vine" patent purported to award private, exclusive rights over a plant that is sacred to indigenous peoples throughout the Amazon region. Where the appropriation and commodification of an important element of a widely held religious system is inherently offensive to that system's adherents, the award of a patent raises special moral concerns that cannot be readily addressed under PTO procedures as they are currently defined.

Analogous problems with trademarks that are offensive on moral or religious grounds have been addressed through statutory language and specific decisions. At the international level, Article 27.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) specifically provides that governments may make exclusions from patenting on grounds of morality. As the PTO itself has noted, the utility requirement of 15 USC Section 101 permits it to deny patentability to inventions deemed "injurious to the well being, good policy, or good morals of society." In support of the principle that factors outside the patent law itself can affect patentability, the PTO recently rejected an application for a patent on a human-animal chimera on the grounds that it impermissibly embraced a human being.

Rather than waiting for case-by-case controversies to arise, the PTO should initiate consideration of how to design principles and procedures that would better protect moral values in the context of patenting living organisms. Such a review could be carried out through a process analogous to the exercise underway regarding the treatment under trademark law of official insignia of Native American tribes. Such a review could help the PTO ensure that the United States' intellectual property system maintains the proper balance between exclusive rights and the public domain.…

Garrett Hardin, The Tragedy of the Commons

162 Science 1243 - 1248, 13 Dec 1968

reprinted at http://www.sciencemag.org/cgi/content/full/162/3859/1243

… The social arrangements that produce responsibility are arrangements that create coercion, of some sort. Consider bank-robbing. The man who takes money from a bank acts as if the bank were a commons. How do we prevent such

action? Certainly not by trying to control his behavior solely by a verbal appeal to his sense of responsibility. Rather than rely on propaganda we follow Frankel's lead and insist that a bank is not a commons; we seek the definite social arrangements that will keep it from becoming a commons. That we thereby infringe on the freedom of would-be robbers we neither deny nor regret.

The morality of bank-robbing is particularly easy to understand because we accept complete prohibition of this activity. We are willing to say "Thou shalt not rob banks," without providing for exceptions. But temperance also can be created by coercion. Taxing is a good coercive device. To keep downtown shoppers temperate in their use of parking space we introduce parking meters for short periods, and traffic fines for longer ones. We need not actually forbid a citizen to park as long as he wants to; we need merely make it increasingly expensive for him to do so. Not prohibition, but carefully biased options are what we offer him. A Madison Avenue man might call this persuasion; I prefer the greater candor of the word coercion.

Coercion is a dirty word to most liberals now, but it need not forever be so. As with the four-letter words, its dirtiness can be cleansed away by exposure to the light, by saying it over and over without apology or embarrassment. To many, the word coercion implies arbitrary decisions of distant and irresponsible bureaucrats; but this is not a necessary part of its meaning. The only kind of coercion I recommend is mutual coercion, mutually agreed upon by the majority of the people affected.

To say that we mutually agree to coercion is not to say that we are required to enjoy it, or even to pretend we enjoy it. Who enjoys taxes? We all grumble about them. But we accept compulsory taxes because we recognize that voluntary taxes would favor the conscienceless. We institute and (grumblingly) support taxes and other coercive devices to escape the horror of the commons.

An alternative to the commons need not be perfectly just to be preferable. With real estate and other material goods, the alternative we have chosen is the institution of private property coupled with legal inheritance. Is this system perfectly just? As a genetically trained biologist I deny that it is. It seems to me that, if there are to be differences in individual inheritance, legal possession should be perfectly correlated with biological inheritance--that those who are biologically more fit to be the custodians of property and power should legally inherit more. But genetic recombination continually makes a mockery of the doctrine of "like father, like son" implicit in our laws of legal inheritance. An idiot can inherit millions, and a trust fund can keep his estate intact. We must admit that our legal system of private property plus inheritance is unjust--but we put up with it because we are not convinced, at the moment, that anyone has invented a better system. The alternative of the commons is too horrifying to contemplate. Injustice is preferable to total ruin.…

NOTES AND QUESTIONS

1. The *CIEL* excerpt states that "subsection 102(f) precludes the award of a patent when the applicant did not invent the subject matter sought to be patented. …Patent applications whose claims merely duplicate processes known to indigenous and local communities will thus fail the statutory bar of subsection

102(f) and should be rejected." Section 102(f), which literally says an applicant is entitled to a patent unless "he did not himself invent the subject matter sought to be patented," is sometimes called the "derivation" provision. Section 102(f) has invariably been applied by the courts in situations where the applicant is shown to have acquired the invention from another person, and the party challenging the patent must demonstrate that there was "communication of a complete conception …sufficient to enable one of ordinary skill in the art to construct and successfully operate the invention." Hedgewick v. Akers 497 F.2d 905, 908 (CCPA 1974) But the statute nowhere uses the word "derivation." Should a patent application fail for lack of novelty under 102(f) merely because an indigenous people are shown to have known of the invention if derivation is unproven?

2. What is the strongest argument made in the *CIEL* comment? On 3 November 1999, the ayahuasca patent was ruled invalid in a reexamination proceeding, holding that plant specimen sheets in herbarium collections are prior publications because they are publicly available and catalogued. *See* Plant Patent's Rejection Highlights Conflict Between Tradition and IP Law, 1 Intell. Prop. L. Weekly 741 (11/17/99).

3. Patent protection and "biopiracy." The protection of indigenous knowledge is a key concept of the Convention on Biological Diversity (CBD). Its Article 8(j) requires Parties to "encourage the equitable sharing of the benefits arising from the utilisation of such knowledge, innovation and practices." The Coordinating Body for Indigenous Organizations of the Amazon Basin (COICA), in its Fifth Congress in May, 1997, decided to declare a citizen of the United States, Loren Miller, the *Banisteriopsis* patentee, an "enemy of indigenous people". After that time COICA prohibited his entry into any indigenous territory. In an "Open Letter to the U.S. Congress" in April, 1998, COICA alleged that as a result, "the Inter-American Foundation (IAF) - a body of the the U.S. government - has decided to break relations with our organization. In doing so, they have denied any type of collaboration (*sic*) with more than one and a half million indigenous peoples of the Amazon Basin, while we are making an effort to maintain our cultures, as well as, trying to avoid the destruction of the largest rainforest on the planet. …COICA will not renounce its legitimate right to defend and preserve the knowledge, practices, innovations and natural resources of the peoples whom we represent. This right has been explicitly recognized in the Treaty of Biological Diversity that was ratified by more than 170 countries.…We believe that you the Congressmen/women, should know the fundamental reason which allows your fellow citizens to patent our plants and appropriate our knowledge. There is a lack of ratification by the U.S. Congress of the Treaty of Biological Diversity, and a lack of approval for accurate laws that impede this known worldwide practice of 'biopiracy.'" (communication from <coica@uio.satnet.net>). Breaking or withdrawal of relations by a state is a form of political pressure or "self-help" called"retorsion" under international law, a lesser response than "retaliation." The U.S. signed on 4 June 1993 but has not ratified the CBD. Assuming that the COICA allegation is correct, once having signed on (even if not acceding) to the CBD, is the U.S. obliged under international law not to work against the CBD's objects and purposes by applying such political pressure on indigenous groups? As a rhetorical gesture, is the use of the term "biopiracy" by NGO's against the uncompensated use of indigenous

knowledge in developing countries any different in impact or validity from the use by of the term "piracy" by developed countries for counterfeit goods?

4. Access to biodiversity and national sovereignty. Article 15 CBD recognizes that Parties have sovereign rights over their genetic resources and confirms that they have the authority to determine access through national legislation. Parties shall "endeavour to create conditions to facilitate access to genetic resources for environmentally sound uses by other Contracting Parties and not to impose restrictions that run counter to the objectives of this Convention." Access "shall be on mutually agreed terms," and shall be "subject to prior informed consent of the Contracting Party providing such resources, unless otherwise determined by that Party". At the Third Meeting of the Conference of the Parties (COP) to the CBD, held in Buenos Aires in November 1996, the COP considered a preliminary report entitled "The Impact Of Intellectual Property Rights Systems On The Conservation And Sustainable Use Of Biological Diversity And On The Equitable Sharing Of Benefits From Its Use," which lists the provisions of the CBD which influence or are influenced by intellectual property obligations of the CBD Member states. *See* UNEP/CBD/COP/3/22 (22 September 1996) The relationship between the CBD and the TRIPS Agreement is explicitly addressed in a subsequent report of the CBD secretariat entitled "The Convention On Biological Diversity And The Agreement On Trade-Related Intellectual Property Rights (Trips)" Relationships And Synergies." S*ee* UNEP/CBD/COP/3/23 (6 OCTOBER 1996). From the opposite institution, the Committee on Trade and Environment of the WTO considered the interrelationship of the CBD and the TRIPs Agreement and issued its report (then "restricted") in June, 1995. *See* World Trade Organization WT/CTE/W/8 RESTRICTED (8 June 1995) (95-1525) For a frank discussion of the issues involving access to biodiversity and intellectual property, *see* William O.Hennessey (ed.), "The Greening of Technology Transfer: The Protection of the Environment and of Intellectual Property", conference sponsored by the Licensing Executives Society (USA/Canada) and the Center for International Environmental Laws, June, 1994. <http://www.fplc.edu/green/contents.htm> S*ee also* William O. Hennessey, "Sustainable Development is Win-Win" 31 LES NOUVELLES 15-19 (Mar. 1996).

5. Sovereignty over resources and "the common heritage of mankind." The selection by Garrett Hardin excerpted above from his seminal 1968 SCIENCE article was the beginning of the movement toward seeing the benefits of clearly recognized property rights in natural resources. Do the arguments Hardin makes apply equally to national sovereignty rights and private property rights? Is it "unfair" that some countries have more natural resources (such as biodiversity) than others?

6. An applicant for a patent is under no current obligation to conduct a search prior to filing an application. *See* American Hoist & Derrick Co. v. Sowa & Sons 725 F.2 1350, 1362 (Fed. Cir. 1984). The authors of the *CIEL* excerpt propose to require patent applicants to conduct a prior art search of traditional knowledge before filing. Most patent applicants do a search prior to filing an application anyway, given the significant costs of drafting the application and the Section 112 prohibition against adding "new matter" to a disclosure after the filing date. What purposes are served by the present state of the law relieving the

applicant of any obligation to search? Wouldn't interests of economy suggest that some sort of search be required of the applicant prior to filing a patent application, particularly given that the applicant is "or should be" in a better position than the examiner to know where prior art lies?

7. The Cord Blood Controversy. Recall that Article 27(2) of the TRIPS Agreement allows a state to "exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect ordre public or morality." In early 1999, the European Patent Office revoked a patent covering the use of human blood cells (cord blood) for medical purposes. The patent application filed in 1989 by the US Company Biocyte, related to the isolation and preservation of Fetal and Neonatal Hematopoietic Stem and Progenitor cells of the blood. The EPO justified its decision arguing that human blood cannot be placed within the realm of invention. Similarly, as mentioned in the *CIEL* excerpt, the U.S. Patent and Trademark Office has rejected a patent application claiming a part-human "chimera." Is the "appropriation and commodification of a widely held religious system" less offensive to the public policies supposedly upheld by the patent law than patents relating to human beings? Should Congress add explicit exceptions to patentability in the patent law concerning scandalous subject matter, similar to those found in Section 2(a) of the Lanham Act?

8. UPOV and *sui generis* protection of plant varieties. Recall that under TRIPS Article 27(3)(b), Members may also exclude from patentability "plants and animals other than microorganisms, and essentially biological processes for the production of plants or animals other than non- biological and microbiological processes." But it goes on to say, " However, Members shall provide for the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof. The provisions of this sub-paragraph shall be reviewed four years after the entry into force of the Agreement Establishing the WTO." In January, 1999, a foreign ministry-level meeting of the 62-member Organization of African Unity (OAU) in Lusaka called for a hold on intellectual property protection of plant varieties until an Africa-wide alternative system to patents has been developed. The proposed system would aim to divide the intellectual property rights of new plant forms between plant breeders and indigenous communities that might have contributed to early varieties in accordance with the "equitable sharing" provisions of the CBD. Two weeks later in Bangui, a meeting of patent office officials from member states of the OAPI countries reached a decision to recommend that the sixteen states collectively adopt the 1991 version of the UPOV convention. Subsequently (according to news reports,) Johnson Ekpere, secretary-general of the Scientific, Technical and Research Commission of the OAU, said, "This is a case of the right hand not knowing what the left hand is doing." and described as "unlikely" any attempts to ratify the UPOV convention in an African parliament. Mzondi Haviland Chirambo, director-general of ARIPO, agreed, stating that he believes that ARIPO member states are unlikely to follow the lead set by OAPI countries. Given the unsettled state of the TRIPs Agreement after the December 1999 Ministerial meeting in Seattle, are the WTO developing country Member states still obliged to enact a system for protection of plants now that the TRIPs Agreement has taken effect in those countries? Or does the language of the final sentence quoted above

suggest that the entire sub-section is subject to renegotiation, perhaps incorporating some of the demands of NGOs such as CIEL? *See* Philippe Cullet *Revision of the TRIPS Agreement concerning the Protection of Plant Varieties: Lessons from India concerning the Development of a Sui Generis System*, 2 J. World Intell. Prop. 617 (1999); Genetic Resources Action International [GRAIN] *TRIPS versus biodiversity: What to do with the 1999 review of Article 27.3(b)* <http://www.grain.org/publications/reports/tripsmay99.htm>.

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[*]Copyright 2000, New York Times.

[**]Copyright © 1995, J. Thomas McCarthy.

[1]*See Boeing Probes 'Bogus' Parts Claim*, S.F. CHRON., Aug. 27, 1988, at A4 ("Some Boeing 737, 747 and 757 jet airliners manufactured since mid-1986 were fitted with more than 2000 allegedly counterfeit ball bearings that an engineer said could 'pose serious hazards'. . . .").

[*]Copyright 1999, Graeme B. Dinwoodie.

[2]*See, e.g.,*Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998), Tit. I (extending term of copyright partly in response to EU Term Directive); Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) Tit. I (implementing WIPO Copyright Treaty); Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994), Tit. V (implementing TRIPS Agreement); Trademark Law Treaty Implementation Act, Pub. L. No. 105-330, 112 Stat. 3064 (1998), Tit. I (implementing Trademark Law Treaty).

[3]Barbara Ringer, *The Role of the United States in International Copyright — Past, Present and Future*, 56 GEO. L.J. 1050, 1057 (1968).

[*]Copyright © 1994 by the Tulane Law Review Association; P. John Kozyris.

[4]See generally Ferdinand F. Stone, The End to Be Served by Comparative Law, 25 Tul. L. Rev. 325 (1951).

[5]For example, imagine the sciences of medicine or horticulture confining themselves only to American medicine or American horticulture.

[6]Similarly, an American horticulturist may not typically specialize in jungle flora, or an American doctor may not become an expert on amoebiasis or yellow fever.

[*]Copyright 1996 by the PTC Research Foundation of the Franklin Pierce Law Center; William L. Keefauver.

[1]Treaties may be used as "evidence of an emerging norm of customary international law". Kadic v. Karadzic, 70 F.3d 232, 238 n.1 (2d Cir. 1995).

[*]Copyright 1987, American Law Institute.

[**]To complicate matters further, the different revisions are known as Acts, for example the 1971 Paris Act of the Berne Convention. Each new Act requires a new accession in order for a country to be bound by the new standards it contains. This means that different countries that are all party to Berne or Paris may be bound by different requirements. As a practical matter, however, because the TRIPS Agreement requires the application of the most recent Act of Berne and Paris, this latest version will be applied by virtually all Berne and Paris members.

[***]In the past, separate Committees of Experts have been convened to deal with separate topics–e.g., a Committee of Experts on the issue of database protection, and a separate Committee of Experts on the issue of audiovisual performers' rights. In reality, however, the membership of the committees was almost identical. As of the fall of 1998, WIPO has instead convened Standing Committees of Experts addressing a broad area of intellectual property. Thus, one Standing Committee deals with copyright and related rights; one with patents; and a third with trademark and unfair competition.

[****]Excerpted from Matthijs Geuze and Hannu Wager, WTO Dispute Settlement Practice Relating to the TRIPS Agreement, J. Int'l Econ. L. 347, 382-84 (1999). Copyright 1999 Matthjis Geuze and Hannu Wager.

[2]It should be noted that the review does not, either explicitly or implicitly, lead to the granting of a

'clean bill of health' to a Member's legislation. The fact that a matter was not raised or, if raised, not pursued in the follow-up to the review does not in any war prejudice other Members' right to raise the matter subsequently and, ultimately, have recourse to dispute settlement.

[*]The European Court of Justice has held that certain provisions of directives may be treated as directly creating rights in Member States, notwithstanding lack of adequate transposition by the member state in question, under the doctrine of "direct effect". This doctrine should not be confused with the question of direct applicability.

[**]The jurisdiction of the Court of First Instance is more limited; most importantly it does not include the preliminary reference procedure.

[***] The Court has also considered the concordance of national intellectual property laws with other provisions of the EC Treaty. *See, e.g.,* Phil Collins v. Imtrat, 1994 F.S.R. 166 (ECJ 1993) (holding that because discrimination on grounds of nationality is prohibited under the EC Treaty, the application of reciprocity requirements to deny protection to citizens of other EU states under multinational intellectual property treaties was a violation of EU law), *infra*, Ch VI.

[****]Some states (and international agreements) go even further. The European Patent Convention, for example, goes beyond national treatment and provides access to all applicants without consideration of nationality, residence, membership in a treaty system, or other status

[3]*See* TRIPS., art. 3(1). . . However, the requirement of national treatment is expressly subject to exceptions already provided in the Paris and Berne Conventions, and to exceptions recognized in both the [Rome Convention and in the IPIC Treaty]. See TRIPS Agreement, arts. 1(3) n.1, 3(1).

[4]Cf. id. art. 1(1) (allowing member states to "implement in their [domestic] law more extensive protection than is required by this Agreement").

[5]See TRIPS Agreement, art. 4(d) (with the proviso that immunized measures "not constitute an arbitrary or unjustifiable discrimination against nationals of other members"); see also id. art. 4(b) (exempting inconsistent provisions of Berne Convention and Rome Convention).

[6]On this reading, the TRIPS Agreement would appear to override unilateral claims to material reciprocity like those incorporated into the United Kingdom's unregistered design right of 1988 . . . and into the United States' Semiconductor Chip Protection Act of 1984. . . This follows because industrial designs and integrated circuit designs fall within the operative definition of intellectual property. In practice, the need for reciprocity under the SCPA was obviated by TRIPS Agreement arts. 35-38, which harmonize the protection of integrated circuit designs.

[7]See TRIPS Agreement, arts. 2(1) and 9(1), respectively incorporating by reference Paris Convention, art. 2(1), and Berne Convention, supra note 8, art. 5(1). .

[8]See, e.g., TRIPS Agreement, arts. 1(3) (TRIPS treatment), 9(1) (mandating compliance with substantive provisions of Berne Convention, except for art. 6bis concerning moral rights).

[9]WTO Agreement, art. II(2) (distinguishing "Multilateral Trade Agreements," including TRIPS, that are binding on all members from "Plurilateral Trade Agreements," see id. art. II(3), which create obligations only for members that have accepted them).

[1]Here and there some doubts were raised in the faith. At a Senate patent hearing in 1877, Senator Wasleigh said bluntly, "While a man has a right to put his horse into his own barn, and not use it himself, he has no right to lock up his invention and let nobody use it. It is his duty to let his invention go out to the world." The reply of A.H.Walker, patent attorney, is a statement of the dominant American position:

[2]At the 1877 patent hearing, J.J.Storrow, patent attorney, testified: "Sir William Thomson went home from our Centennial Exhibition, and just as he got home he appeared before the British Association, before the section of steam-engineering, of which he is the president, and, in giving them an account of what he had seen in this country, he called their attention very sharply to the effect of patent laws on the improvement of labor-saving machinery. He told them that unless the countries of Europe speedily amended their patent laws, and unless they amended them in a contrary direction to the bill pending in Parliament, they must understand that they would lose their manufacturing supremacy and that America would take it from them. . . . Storrow goes on to quote

approvingly the remarks of Hulse, English judge of textile machinery at the Centennial: "As regards extent of invention and ingenuity, the United States was far ahead of other nations . . . The extraordinary extent of ingenuity and invention existing in the United States, and manifested throughout the exhibition, I attribute to the natural aptitude of the people, fostered and stimulated by an admirable patent law and system, and to the appreciation of inventions by the people generally." Arguments before the Committee on Patents, Misc. Doc. No. 50, 45th Cong., 2d Sess. 318 (1878).

[3]The EC provided the following short negotiating history of the TRIPS Agreement:
"At the Ministerial Conference which launched the Uruguay Round of Multilateral Trade Negotiations at Punta del Este, Uruguay in September 1986, TRIPs was included into the negotiation agenda as one of the so-called new topics. Multilateral rulemaking in the IPR area was so far dominated by the World Intellectual Property Organisation (WIPO) which administers or co-administers practically all important conventions in this area. There existed at the outset fundamental divergencies between industrialized countries, who wished to achieve a comprehensive coverage of all intellectual property rights and developing countries (LDCs) who wanted to limit work to a Code against trade in counterfeit goods. During the negotiating process the view of those who pursued a comprehensive approach prevailed. This had as a consequence that practically all existing IPRs were included in TRIPs. To start with the principles of national treatment and most favoured nation treatment (the latter being a novelty in the area of IPRs) were stipulated. The most important WIPO conventions (the Paris Convention covering industrial property rights and the Berne Convention covering copyright as well as the Washington Treaty for the protection of semiconductor topographies) were included by reference, also to make these conventions subject to an efficient dispute settlement system. Over and above the level provided for under the provisions of these conventions the substantive levels of protection were set at the level prevailing in the mid 1980s in the industrialized countries. Furthermore extensive rules for the enforcement of the substantive IPR standards were sought for, which constituted an absolute novelty for international IPR rulemaking. The Dunkel text on TRIPS of December 1991 to which reference was made under point 19 above, became almost verbatim part of the Final Act adopted at the Marrakech Ministerial Conference in April 1994 which successfully concluded the Uruguay Round Negotiations. The substantive provisions for the protection of patents are contained in Section 5 of Part II, i.e. Articles 27 to 34 of the TRIPS Agreement. Article 27.1 TRIPS sets out the principle that patents have to be available in all fields of technology if the general conditions for the grant of a patent are met. This is of fundamental importance because many countries, in particular developing countries, had not made - and some still today do not make - available patents for specific areas of technology, notably pharmaceuticals, agrochemicals or foodstuffs. Article 27.2 and 27.3 TRIPS give the option to exclude a number of well defined subject matter from patentability, which is largely derived from modern pieces of IPR legislation as the European Patent Convention (EPC) (compare in particular Article 53 EPC). Article 28 TRIPS describes in detail the rights, which are conferred on a patent owner once the patent has been granted. Article 29 TRIPS stipulates the duties which a patent applicant has to meet and Article 30 TRIPS addresses exceptions to rights conferred which WTO members may provide. Article 31 TRIPS deals primarily with what is generally termed as compulsory licences and sets out detailed rules for the grant of such licences. Article 32 TRIPS addresses revocation and forfeiture and Article 33 TRIPS mandates a minimum term of protection for patents of 20 years from filing. Finally, Article 34 TRIPS establishes rules for process patents and provides in particular for a reversal of the burden of proof in an infringement procedure. While transitional periods for the benefit of LDCs (including - under certain conditions - so-called economies in transition) and least developed countries (LLDCs) are still running, all industrialized country members of the WTO had to comply fully with all the obligations flowing from the TRIPS Agreement as of 1 January 1996 (see Articles 65 and 66 TRIPS). Thus Canada's obligations vis-…-vis the EC and their Member States had to be met fully as of 1 January 1996." The EC also referred to Gervais, "The TRIPS Agreement: Drafting History and Analysis", London 1998, pages 3 to 28.

[4]Reference was made to Dr Herz, who was part of the Canadian TRIPS and NAFTA negotiating team, who had written: ". . .with respect to IPRs, NAFTA closely tracks the language of the 1991 Dunkel Draft of the TRIPS negotiating text. Therefore, NAFTA's chapter 17: Intellectual property and TRIPS generally are textually close enough to ensure that interpretations in the meaning of the one would be directly relevant to the elucidation of the other. IP related findings of eventual

NAFTA panels may, therefore, powerfully influence TRIPS interpretation and vice-versa." (Canada-US L.J. Vol. 23, (1997), at p. 281).

[5]. . . The statutory scheme set forth in § 44 [of the Lanham Act] is in place to lower barriers to entry and assist foreign applicants in establishing business goodwill in the United States. Person's Co. does not assert rights under § 44, which if properly applied, might have been used to secure priority over Christman.

[6]Appellant repeatedly makes reference to a "world economy" and considers Christman to be the remote junior user of the mark. Although Person's did adopt the mark in Japan prior to Christman's use in United States commerce, the use in Japan cannot be relied upon to acquire U.S. trademark rights. Christman is the senior user as that term is defined under U.S. trademark law.

[7]*See, e.g., Vaudable v. Montmartre, Inc.*, 20 Misc. 2d 757 (N.Y.Sup.Ct. 1959); *Mother's Restaurants, Inc. v. Mother's Other Kitchen, Inc.*, 218 U.S.P.Q. (BNA) 1046 (TTAB 1983).

[8]*See Davidoff Extension, S.A. v. Davidoff Int'l.*, 221 U.S.P.Q. (BNA) 465 (S.D.Fla. 1983).

[9]*See Bulk Mfg. Co. v. Schoenbach Prod. Co.*, 208 U.S.P.Q. (BNA) 664, 667-68 (S.D.N.Y. 1980).

[10]In a separate opinion, one member of the Board stated: [T]he only impact of the spillover advertising is on commerce within Canada. The rendering of the services is in Canada, by Canadian persons and entities. The profit, if any, emanating from the rendering of such services accrues to Canadian citizens. To avail oneself of the services one must be in Canada. Thus, there is no impact as a result of the spillover advertising on commerce between Canada and the United States. Accordingly, the prior spillover advertising of MOTHER'S and MOTHER'S PIZZA PARLOUR & SPAGHETTI HOUSE created no rights or priority for opposer in the United States. 218 U.S.P.Q. at 1051 (Allen, concurring in part). Here too, Santambrogio's advertising in the United States only had an impact on commerce in Milan, Italy; the restaurant services were rendered in Milan, any profit flowed to Milan, and to avail oneself of the restaurant services one must be in Milan. Thus, there is no impact on United States commerce and no use or rights to the mark in the United States.

[11] Those TTAB cases also cause the Court to reject Impressa Perosa's argument that its negotiation for future Fashion Cafe restaurants at various U.S. hotels or with United States restauranteurs before the opening of Buti's New York Fashion Cafe constitutes use of the mark in the United States.

[12]Santambrogio alleged that now "the name Fashion Cafe is very well known," but admitted that he "[could] not tell you if it's because of me or because of Mr. Buti" and admitted that he had never conducted a survey to test the level of United States recognition of the Milan Fashion Cafe. The evidence in the record appears to indicate that the reason that the Fashion Cafe mark was "very well known" was because the owners of the New York Fashion Cafe had spent millions of dollars in advertising and promotion and that the "supermodels" generated over 750,000 newspaper articles and 175,000 television reports worldwide. In any event, there is no evidence that the Milan Fashion Cafe mark is well known in the United States.

[13]The parties have advanced a variety of translations of the JPO's decision. Defendant's exhibits include three translations:
1) "It is self-explanatory that Japanese (kanji) letters comprising [otokoyama] have been treated as long years' customary written symbol of goods=SEISYU (Japanese equivalent to refined sake (liquor))."; and
2) "[I]t is clear that the characters forming the word Otokoyama have a long history of customary use in the industry for products designated as seishu ['refined liquor']."; and
3) "It is obvious that the character 'Otokoyama' is a trademark which has been used commonly by traders in this industry for 'sake' products from old times."

[14]Katakana, Hiragana, and Kanji are apparently three different writing systems in the Japanese language.

[15]The district court concluded, erroneously, that the Holland decision was superseded by the 1984 Amendments to the Lanham Act. [cit]. The 1984 Amendments clarified the test to determine whether a registered mark has "become generic" in the minds of consumers, even though it was once distinctive. *See* Trademark Clarification Act of 1984, Pub.L. No. 98-620 §§ 101-104, 99 Stat. 3335, codified at 15 U.S.C. § 1064(3). The Amendments were designed to overturn the "purchaser

motivation" test of *Anti- Monopoly, Inc. v. General Mills*, 684 F.2d 1326 (9th Cir.1982), but left other trademark law intact. *See Magic Wand, Inc. v. RDB, Inc.*, 940 F.2d 638, 640-41 (Fed. Cir.1991). Since *Holland*, like this case, concerned a mark alleged to be a generic "foreign equivalent" at the time it was registered, the changes wrought by the Amendments do not apply, and *Holland* remains good law.

[16]Defendant's evidence included the following: It cited the 1966 JPO decision denying plaintiff permission to register otokoyama as a trademark. It submitted an affidavit from its own president, an importer of Japanese sake since 1973, asserting that otokoyama signifies "a type of dry sake" in Japan. It offered entries from two sake "encyclopedias" and a suppliers list of Japanese brewers showing that a number of brewers of sake use the word otokoyama. Finally, it offered plaintiff's promotional pamphlet and website advertising, which refer to otokoyama's Edo-age origins and representation on sake barrels from the period. It offered neither Japanese dictionary definitions nor testimony of independent experts in the Japanese liquor industry on the meaning of otokoyama.

[17]English Translation by the Max Planck Institute for Foreign and International Patent, Copyright and Competition Law (Munich, Germany).

[18]Commenting at a Senate hearing on the 1988 Revision Bill, Beverly W. Pattishall, well-known trademark attorney and long-time supporter of dilution protection, [cit.] opined, "I can't think of any group that would do anything but either ignore it or endorse it." 35 P.T.C.J. (BNA) 403, 405 (1988). The organized media sometimes accounts for an exception to the general under-representation of the anti-protectionist position, but its interests are usually too narrow to provide comprehensive balance.

[19]. . . Copyright revision may reflect yet another model of the legislative process. Unlike trademarks, both owners and users of copyrighted subject matter are well organized. Much of the 1976 Copyright Act and its subsequent amendments were drafted, not be legislators or their staffs, but by affected interest groups during protracted negotiations. Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 Cornell L. Rev. 857 (1987). Groups not at the table were frequently shortchanged. *See* Jessica Litman, *Copyright Legislaton and Technological Change*, 68 Or. L. Rev. 275 (1989).

[*]Copyright 1991 by the University of Iowa (Iowa Law Review); Marshall A. Leaffer.

[20]The prime example of developing countries' attitudes toward intellectual property is represented by the United Nations Conference on Trade and Development, known as UNCTAD. Created in 1964, UNCTAD has been primarily involved in intellectual property. Its various position papers reflect the developing countries' concern about access to innovative and creative works originating in developed countries. For a discussion of UNCTAD, *see* Spitals, *The UNCTAD Report on the Role of Trademarks in Developing Countries: An Analysis*, 3 N.Y.L. Sch. J. Int'l Comp. L. 369 (1981).

[21]Established in 1964 as a permanent organ of the General Assembly of the United Nations, UNCTAD was given the responsibility of establishing principles concerning trade between industrialized nations and developing countries. *See* Ball, *Attitudes of Developing Countries to Trademarks*, 74 Trademark Rep. 160, 162 n.8 (1983).

[22]*See* Gabay, *The Role of Trademarks in Consumer Protection and Development in the Developing Countries*, 3 Indus. Prop. 102, 111 (1981). That trademarks may be used as a means of persuasive advertising is nothing new, and even if foreign marks were eliminated, local marks may serve the same purpose. It is hard to see how the public would gain by a virtual confiscation of foreign marks. Whatever gains may occur from less persuasive advertising could well be offset by a loss of foreign investment in the developing country. Trademark licensing encourages economic development in the Third World, as does licensing of all intellectual property. Only by licensing can the Third World gain the necessary technological know-how, marketing expertise, and international reputation of the licensor.

[*][Ed Note: In March 1998, the Assemblies of Member States of WIPO approved the establishment of the Standing Committee of the Law of Trademarks, Industrial Designs and Geographical Indications (SCT). The Standing Committee format is designed to provide a more effective and streamlined mechanism for consideration of international trademark and design issues. The first session of the SCT was held in July 1998 and focused on adoption of the SCT's Rules of Procedure. It was decided that the European Union should be a non-voting member of the SCT. This

reorganization of WIPO around TRIPS has not been welcomed by all scholars. *See infra* Ch. VIII]

[*] Excerpted from John B. Pegram, *Trademark Law Revision: Section 44*, 78 Trademark Rep. 141, 153-54 (1988).

[*] Copyright 1998 Duke Journal of Comparative and International Law.

[23] *See* Paris Convention, art. 2. Article 2(1) of the Paris Convention provides the nationals of any member state with the same advantages that domestic laws grant to nationals of the states where the protection is sought; reciprocity is denied. *See id.* art. 6(2). . . .

[24] *See* Paris Convention, art. 6(2). Article 6(2) of the Paris Convention states: "However, an application for the registration of a mark filed by a national of a country of the Union in any other country of the Union may not be refused, nor may a registration be invalidated, on the ground that filing, registration, or renewal, has not been effected in the country of origin." *Id.*

[25] *Bacardi Corporation of America v. Domenech*, 1940, 311 U.S. 150; [cit].

[26] The fact that United States citizens have already been given benefits by other provisions of the Lanham Act similar or identical to those contained in section 44 should not obscure the fact that subsection (i) added certain rights which United States citizens would not otherwise have had. For example, citizens or residents of the United States who have a 'bona fide and effective business or commercial establishment' in a foreign country, within the meaning of subsection (b), may register any trade-marks which they have registered in that foreign country in the same manner as that provided for foreign nationals and with the same filing priorities. . . .

[27] Article 10*ter* of the Paris Convention also requires signatory nations to provide for legal remedies to enforce Article 10*bis*. . . .

[28] Defendants also contend that if the Paris Convention provides substantive rights it is not clear what those rights are. While the precise nature of these rights is not clear at this juncture, it is clear that the rights provided by the Paris Convention include protection from commercial bribery. It also should be noted that because Plaintiffs seek the enforcement of foreign law, it is their obligation to inform the court of the content of that law. *Rolnick v. El Al Israel Airlines, Ltd.*, 551 F.Supp. 261 (E.D.N.Y.1982).

[29] Defendants also argue that interpreting section 44 as incorporating the Paris Convention would eliminate diversity jurisdiction in all actions involving unfair competition. This is overstated. The court's holding is limited to the circumstances of this case. The Lanham Act incorporates the substantive provisions of the Paris Convention and thus creates a federal law of unfair competition applicable in international disputes. Diversity jurisdiction would still apply in a domestic dispute. It should also be noted that this issue is not before the court. The court has proper federal question jurisdiction in this case.

[30] Canada, unlike the United States, authorizes an applicant to seek registration of a "proposed trademark" before the mark is actually used. Canadian registration is granted only if a declaration is filed alleging that use of the trademark in Canada has commenced. . . .

[31] The United States District Court for the Eastern District of North Carolina recently expressed disagreement with the District Court decision in the case sub judice, noting that it found the District Court's ruling "difficult to reconcile" with the provisions of section 44(d) of the 1946 Act. *American Petrofina, Inc. v. Brown*, 391 F.Supp. 757 (E.D.N.C.1974). Moreover, we note that commentators analyzing the section 44(d) "right of priority" uniformly disapprove of the District Court's ruling in this case. [cit].

[32] *See* S.Rep.No.1333, 79th Cong., 2d Sess. 4-5 (1946):

> The (1946) Act is substantially the act of February 20, 1905. .
>
> . . . (I)deas concerning trademark protection have changed in the last 40 years and the statutes have not kept pace with the commercial development. In addition the United States has become a party to a number of international conventions dealing with trade-marks, commercial names, and the repression of unfair competition. These conventions have been ratified, but it is a question

whether they are self-executing, and whether they do not need to be implemented by appropriate legislation.

> Industrialists in this country have been seriously handicapped in securing protection in foreign countries due to our failure to carry out, by statute, our international obligations. There has been no serious attempt fully to secure to nationals of countries signatory to the conventions their trade-mark rights in this country and to protect them against the wrongs for which protection has been guaranteed by the conventions. Naturally under such circumstances foreign governments do not always give to citizens of the United States their convention rights. To remedy this discreditable situation is merely an act of international good faith.
>
> This bill attempts to accomplish these various things:
>
> . . .
>
> 2. To carry out by statute our international commitments to the end that American traders in foreign countries may secure the protection to their marks to which they are entitled.

[33]As first adopted in Paris on March 20, 1883, and as ratified by the United States on March 29, 1887, 25 Stat. 1372, T.S. 379, Article 4 of the treaty read as follows:

> Any one who shall have regularly deposited an application for . . . a trade or commercial mark, in one of the contracting States, shall enjoy for the purpose of making the deposit in the other States, and under reserve of the rights of third parties, a right of priority during the periods hereinafter determined (generally three months).
>
> In consequence, the deposit subsequently made in one of the other States of the Union, before the expiration of these periods cannot be in validated by acts performed in the interval, especially by another deposit, (or) by the employment of the mark.

(Emphasis added).

[34]There are three possible positions that can be argued with respect to the use requirements applicable to section 44 filings by foreign nationals: (1) foreign nationals must allege use in commerce; (2) though use in commerce is not required, foreign nationals must nevertheless allege use somewhere; or (3) foreign nationals are not required to allege use at all. Section 44(d)(2) of the 1946 Act clearly exempts section 44(d) applications from the section 1 requirement that applications allege use in commerce. . . .As to the other two possible positions, the official policy of the Patent Office has shifted with some regularity. *See British Insulated Callender's Cables, Ltd.*, 83 U.S.P.Q. 319 (Comm'r 1949) (there must be an allegation of use "somewhere"), *overruled* in *Societe Fromageries Bel*, 105 U.S.P.Q. 392 (Comm'r 1955) (the "*Merry Cow*" case) (there is no use requirement), *overruled* in *Certain Incomplete Trademark Applications*, 137 U.S.P.Q. 69 (Comm'r 1963) (there must be an allegation of use somewhere). And there has been considerable disagreement among commentators on that issue. *Compare* Ladas, *What Does the Vienna Trademark Registration Treaty Mean to the United States?*, 63 T.M.Rep. 551, 559-63 (1973) (there must be use somewhere) with Zelnick, *Foreign Trademark Applicants and Registrants and the Requirement of Use: The Right to Register*, 52 T.M.Rep. 641, 650-51 (1962) (there is no use requirement). The Trademark Trial and Appeal Board opinion in the instant case erroneously states that appellant Langis "had made no use of the marks . . . prior to the filing of its applications in this country." 177 U.S.P.Q. at 718. Nevertheless, the Board, citing the *Merry Cow* case, upheld Langis's registration, thus overruling Certain Incomplete Trademark Applications, *supra*, and reinstating the policy that there is no use requirement.

[*][Ed Note: Crocker Bank's opposition was eventually sustained on other grounds. *See Crocker National Bank v. Canadian Imperial Bank of Commerce*, 228 U.S.P.Q. 689 (T.T.A.B. 1986), *aff'd sub nom, Canadian Imperial Bank of Commerce v. Wells Fargo Bank*, 811 F.2d 1490 (Fed. Cir. 1987). The issue of whether Article 6 of the London text of the Paris Convention and Section 44 permitted registration without use anywhere was not considered on appeal to the Federal Circuit.]

[35]Both Canada and the United States are bound by the revision of the cited convention (hereinafter,

"Paris Convention"), done at London on June 3, 1934. 53 Stat. 1748 . . . As of the filing date of Canadian Imperial's United States application, Canada had not ratified the substantive provisions (Articles 1-12), including the article herein involved, of any subsequent text. Consequently, to the extent that our decision relies upon the Paris Convention, it is the London text which must control.

[36]There is no question that the clear intention of the Congress in enacting Section 44 of the Trademark Act of 1946 was to implement the obligations of the United States under the Paris Convention, as it was revised at London in 1934. [cit].

[37]Under Canadian law, an applicant may seek registration of a "proposed trademark" before the mark is actually used. § 16(e), Trade Marks Act. After an application for registration of a proposed trade mark has been allowed, the applicant is notified accordingly and is required, within six months after the date of the notice, to file a declaration that use of the mark in Canada has commenced. *Id.*, § 39(2).

[38]Although the Lanham Act is not a model of clarity, a surprisingly persistent misconception about Section 44(d) is that it is exclusively for the benefit of a foreign applicant which has not used its mark in commerce and has filed a first application within the preceding six months in its country of origin. This is wrong on both counts. In the first place, the plain meaning of subsection (d)(2) is that the waiver of use in commerce is optional with the applicant. Thus, a qualified foreign entity may file a first application in any one of the countries satisfying the § 44(b) definition on January 1; use the mark in United States commerce on April 1, and file a U.S. application on June 30, claiming both use in commerce and a right of priority as of the filing date of the foreign application. In such a case, since use in commerce, not the country of origin registration, is the basis for registration in the United States, the applicant need not submit a certified copy of the registration in its country of origin, or of any other foreign country, for that matter. *See* Trademark Manual of Examining Procedure (TMEP) P1003 (Rev. Dec., 1983). In fact, the contrary interpretation would violate the express terms of Article 4 of the Paris Convention, that the right of priority is not dependent upon the ultimate fate of the application on which it is based. *In re Daiwa Seiko*, __ U.S.P.Q. ___, note 2 (Com'r Pats., July 22, 1983). Secondly, it is clear that where a U.S. application claims both use in commerce and a right of priority the filing which gives rise to the right of priority need not be in the country of origin of the applicant but can be in any "one of the countries described in [§ 44(b)]." It may frequently be the case that the priority country and the country of origin are one and the same, but this is because many applicants choose to file first in their home countries, not because they are required to do so. . . .

[39]The approach of not requiring any use prior to the filing of a trademark application is followed in the entire world with the exception of the United States and the Philippines, whose law was patterned after our own. (Some would add Burma and other pure common law countries, but the only "registration" in such countries is merely an advertisement of one's common law rights.). [cit]. In 1934, when the London text of the Paris Convention was negotiated, the United States was the only signatory having such a requirement, and the same was true in 1946 when the Lanham Act implementing that text was enacted. (The Philippines became a member of the Paris Union in 1965 when it ratified the 1957 Lisbon Act.) . . .

[40]Accordingly, unless the *Certain Incomplete* interpretation of the statute anticipates that a foreign applicant can lawfully satisfy the requirements as to use somewhere by effecting a token, non-commercial sale, it is apparent that the two conditions are from a practicable standpoint not possible to satisfy within the Paris Convention priority period. The very purpose of laws which permit the filing of trademark applications without use is to enable business entities to file applications as soon as possible after adoption, so that their right to use the selected mark is preserved pending development of their commercial marketing plans. Deferral of use requirements also makes it possible for the proprietor to ascertain through the registration procedure whether the selected mark is registrable before committing resources in marketing developments which depend upon the mark's availability (e.g., packaging, advertising, etc.). *See* Zelnick, *supra*, "Shaking the Lemon Tree. . .," at 342. The practicality of such laws is extolled by U.S. practitioners who specialize in international practice, *e.g.* Offner, *International Trademark Protection*, 30, *et seq.* (1965), and rightly so, in that without them, United States firms would be hard put to protect potential international expansion of their American trademarks. *See* Allen, "*Protection of Product Identity Abroad: Some New Light on an Old Problem?*" 55 Trademark Reporter 707 (1965). The

position of other Paris Union countries as to the desirability of deferring initial use requirements in their laws was articulated during negotiation of the "Trademark Registration Treaty," signed but not yet ratified by the United States. [cit]. The impracticability of the requirements is also apparent from the facts of the instant case. It is clear that it was not feasible for Canadian Imperial to have supplied any specimens other than the prints of the mark COMMCASH as it was to be used.

[41]A third possibility, that the text of the Paris Convention which is controlling here, *i.e.,* the London Act of 1934, is self-executing, in which case, the question is determined by an evaluation of that treaty, unfettered by uncertainties of construction of the 1946 Trademark Act, is not considered. Substantial authority exists for the proposition that the London text is self-executing, not the least of which is the decision of our Supreme Court in *Bacardi Corp. v. Domenech*, *Treasurer, and Destileria Serralles, Inc.*, 311 U.S. 150 (1940) which came down in the middle of the Lanham bill deliberations and was, in fact, argued on behalf of petitioner Bacardi by the Lanham Act's principal architect, Edward S. Rogers. This decision held that Article 3 of the "Trade-Mark Protection" portion of the Inter-American Convention became on ratification a part of our law and that "no special legislation was necessary to make it effective." Article 3 of the Inter-American Convention was patterned after Article 6 of the Paris Convention and appropriated much of its language. . . . In fact, in the decision which was overruled by *Certain Incomplete*, *i.e. In re Societe Fromageries Bel*, 105 U.S.P.Q. 392 (Comm'r Pats, 1955), Assistant Commissioner Leeds relied expressly on *Bacardi* in holding that Article 6 was self-executing except as to one sentence granting countries the option of requiring a certified copy of the country of origin registration. *See also In re Dorin, Inc.*, 102 U.S.P.Q. 316 (Comm'r Pats. 1954) wherein Mrs. Leed's rationale for applying *Bacardi* to the Paris Convention provisions is fully articulated. *See ge*nerally Ladas, "*The Self-Executing Character of International Conventions on Industrial Property and their Effect on Substantive Rights,*" 36 Trade-mark Bulletin 5, 8 (1946). However, a finding that the London text is self-executing is not critical to our analysis here. The Lanham Act's clear purpose was to carry out the provisions of the Paris Convention, and the London text was the version of that treaty which next preceded enactment of the Lanham Act with that clear purpose in mind. To hold otherwise might create doubt unnecessarily as to whether a different result would pertain in cases involving applicants whose countries of origin are bound by later texts in respect of which the Convention's self-executing character may have changed. *See* Staff of House Comm. on Patents, 86th Cong., 1st Sess. "International Patent and Trademark Conference Lisbon, Portugal" 8 (Comm. Print 1959); Senate Report No. 1019, Sept. 14, 1961, U.S. Code, Cong. and Admin, News. Vol. 2, 8th Cong., 1st Sess., p. 3045 (suggesting the Paris Convention (Lisbon text) is not self-executing.). [cit].

[42]Although much has been written about these early debates about Article 6, most of the literature is in languages other than English. However, there are two excellent English language sources of information about the early history of Article 6. These are: "Transactions of the International Association for the Protection of Industrial Property 1897-1898," Vols. I and II (Undated, Bankes & Co., London); and "Report of the Commissioners Appointed [June 9, 1898] to Revise the Statutes Relating to Patents, Trademarks and Trade Names With Reference to Existing Conventions and Treaties," submitted to the Congress on November 27, 1900, re-printed, Doc. No. 20, 56th Cong., 2d Sess. (1902).

[43]Max Georgii, an American lawyer, proposed at the 1897 AIPPI Congress that the Convention be amended to provide that adoption and use of a mark in any one of the member countries be treated as adoption and use in all of the others. In making this proposal, Georgii disclosed that according to *Richter v. Anchor Remedy Co.*, 53 F.455 (W.D.Pa. 1892), *aff'd* 59 F.577 (3rd Cir. 1893), and other decisions interpreting the Act of 1881 and bilateral treaties that it was intended to implement, a foreign applicant having no trade in the United States, cannot be said to have here a common law trade-mark. See "Transactions. . .," VOL. I, *supra*, at 100-102. Apparently Georgii's idea never materialized, no doubt because the concept of trademark rights based solely on adoption and use was foreign to the civil law countries.

[44]40 Ch.D. 620 (1888); "Transactions. . ., " *supra*, VOL. II, at 241-242 (Frey-Godet). The decision turned on the principle of English law that a treaty is part of the domestic law only to the extent that it has been implemented by an Act of Parliament.

[45]The idea of an internationally accepted definition of a trademark has been discussed from time to

time by international trademark specialists but never with much success. [cit].

[46]. . . It may be added that the Paris Convention does not define the substantive law of its parties but rather sets out the broad principles under which the laws of the countries can operate. *Cf., Kemcort Corp. v. Printing Art Research Labs., Inc.*, 269 F.2d 375 (9th Cir.), *cert. denied*, 361 U.S. 893 (1959) (interpreting the unfair competition provisions.) Internationally, the development of Article 6B is very important. In fact, an entire system of international registration of trademarks, the so-called "Madrid Arrangement," is based upon the broadened scope of this article. . . . By its terms, an international registration of a trademark may not be refused protection in any member country of the arrangement except on a ground which is comprised by Article 6 B. The TRT has an equivalent provision. Dienner, the draftsman of the first text of Article 44, envisioned that section as a basis for United States participation in such international agreements. . . . and § 44(a) plainly anticipates that possibility.

[47]There was an effort in the Drafting Committee at the Lisbon Conference of 1958 to amend the preamble of paragraph B of Article 6*quinquies* (Article 6 in the London text herein involved) so that the grounds of refusal would no longer be interpreted as being restrictive (exhaustive), *i.e.* that refusal might be based on other grounds applicable under the domestic law. However, this effort failed and, in fact, the exhaustiveness of the grounds was made even more clear. . . .

[48]Article 2 expressly protects these benefits from being abrogated by providing that the application of national treatment is "without prejudice to the rights specially provided by the present Convention." There is no question that Article 6 provides one of those special benefits, as *SCM* held in the case of Article 4, and as its very placement in the separate provision of the Act relating to international obligations demonstrates.

[49]Article 3 reads as follows:

> Every mark duly registered or legally protected in one of the Contracting States shall be admitted to registration or deposit and legally protected in the other Contracting States, upon compliance with the formal provisions of the domestic law of such States.

[50]The reason is clear from the provision in Article 2 that to be entitled to the same treatment as citizens of each other country of the Union, a foreign national had to comply with the formalities and conditions imposed upon those citizens. "Transactions. . .," VOL. II, at 206. Included were such matters as the form of the application, the effects of registration and the means of protection. [cit].

[51]The situation is no different than is the case with the existence of the country of origin registration, the definition of the mark (*i.e.*, its form and nature), the goods and/or services, etc. These matters are necessarily governed by the law of the country under whose authority the registration (constitutive or declarative of the trademark right) was granted.

[52]In fact, our failure to have introduced legislation in connection with ratification of the Lisbon text of the convention relating to the addition of paragraph (1) of Article 6 in that Act arguably supports the contrary proposition. In the report of the United States delegation to the Lisbon Conference (*see* "Hearings. . .," *supra,* at 93), following an extensive discussion of divergent views of the countries as to the meaning of Article 6 (at Lisbon, split into two articles, 6 and 6*quinquies*) in relation to national requirements for registration, it is stated in the delegation report that "[t]he only new matter requiring study from the standpoint of possible change in the United States statute is subsection D of new Article 6*quinquies*," a subject unrelated to that issue.

[53]*SCM*, *supra*, 190 U.S.P.Q. at 291-292. Because of this "constructive" use effect, Zelnick also suggests that refusing filing dates to foreign entities who anticipate filing trademark applications in the United States within the six month priority period "would appear to be counter-productive" from the standpoint of American interests in that the delay resulting from having to comply with our use (somewhere) requirement defers the time (within that 6 months) in which these "constructively used" marks are available in our own data base of marks subject of pending applications. Zelnick, "Shaking the Lemon Tree. . .," *supra*, at 345, 346.

[54]Montgomery and Reed, "*Constitutionality Report on Proposed Trademark Registration Treaty*," 63 Trademark Reporter 575, 580-582 (1972). Note also that in the *Trade-Mark Cases* the question of the "treaty making power over trade-marks, and of the duty of Congress to pass any laws

necessary to carry treaties into effect was expressly reserved." 100 U.S. 82, 92, 96-97.

[55]. . . Except for Georgii's in 1898, there do not appear to have been any serious United States proposals that this be adopted as an international standard.

[56]. . . The famous marks doctrine of the Paris Convention is not an exception, of course, since that doctrine applies in the United States only where a mark has become so well-known through long use and extensive promotion in a foreign country that confusion is likely here even in the absence of use. [cit].

[57]The report of the majority members of 1898 commission (Grosscup, a Seventh Circuit judge, and Forbes, a New York lawyer) went even further, proposing intention to a use a mark in commerce as an alternative basis of registration rights for all applicants. Greeley, a Washington lawyer, who was Assistant Commissioner of the Patent Office when appointed to the Congressional commission, following a more conservative approach, recommended retaining for domestic applicants the same use in commerce requirement that had been in the 1881 statute, but waiving this requirement for foreign applicants claiming Paris Convention benefits. *See*, "Report of the Commissioners. . .," *supra*, at 42, 43, 65-67 and 124-125. Greeley's minority report provided the framework for the Act of 1905.

[58]Andre R. Bertrand, *French Trade Mark Law: From the Well-Known Brand to the Famous Brand*, 4 EIPR 142, 142 (1993) states for example with respect to French law that distinctions between the various degrees of brand awareness may be drawn: "Maître Mathély distinguishes 'in ascending order, between major [grand] brands, well-known [notoire] brands and brands which could be described as illustrious [glorieux].' As for French judicial practice, it refers not only to 'well-known' (notoire or notoirement connue) brands, but also to those which are 'very well-known' (de très grande notoriété), or even 'exceptionally well-known' (d'une exceptionnelle notoriété), without—up to now—having drawn any legal inferences from these various qualifications. . . .

[59]. . . Bertrand, at 142 refers to the following distinction between "well-known" and "famous" marks:

(1) The "well-known" brand proper, which is a "trade mark recognised by a large fraction of the circles concerned with the production, sale or use of the goods in question and which is clearly perceived as indicating a particular origin of these products," and

(2) The "famous" (renomme) brand, or "very famous" (de haute renomme) brand which would, so to speak, be a trade mark known internationally or worldwide.

[60]*See McGregor-Doniger, Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1130 (2d Cir. 1979) (setting out eight-factor test to determine infringement in cases involving non-competing goods). The fame of a mark, however, is a component in the test used to judge likelihood of confusion.

[61]*See* G.H.C. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION, at 90 (Article 6*bis* requires proof of confusion.)

[62]Ladas' discussion of failed attempts to amend the Paris Convention to provide international antidilution protection for "marks of great reputation" (not merely well-known marks) is quite illuminating. *See* 2 Ladas, at 1258-63. Unadopted draft agreements exhibit language that is not found in the TRIPS Agreement. For example, one resolution adopted by the Berlin Congress provided disjunctively that marks of "higher reputation" be protected from uses that were likely "to mislead the public or be harmful to the proprietor of the mark." *Id.* at 1262. Article 16 of the TRIPS Agreement conjunctively prohibits uses that "indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner . . . are likely to be damaged by such use." TRIPS, art. 16(3).

[63]There is no reason why an action for dilution should not be available for protecting a famous mark on competing goods as well. *See* Jonathan E. Moskin, *Dilution or Delusion: The Rational Limits of Trademark Protection*, 83 TMR 122, 129 (1993).

Similarly, an action for trademark dilution should also cover the protection of well-known trade dress as opposed to word marks only. For instance, the well-known OSCAR trophy, *Academy of Motion Picture Arts & Sciences v. Creative House Promotion, Inc.*, 944 F2d 1446, 19 USPQ2d 1491 (CA 9 1991), the distinctive COKE bottle shape, *Coca-Cola Co. v. Alma-Leo U.S.A., Inc*, 719 F Supp 725, 12 USPQ2d 1487 (ND Ill 1989), and the AMERICAN EXPRESS green credit card,

American Express Co. v. Vibra Approved Laboratories Corp., 10 USPQ2d 2006 (SDNY 1989), have all been the subject of dilution protection (as referred to by Laura M. Slenzak, *Dilution Law in the United States and Canada: A Review of the State of the Law and a Proposal for United States Federal Dilution Protection*, 83 TMR 205, 217 (1993)).

[64]The German Federal Supreme Court (Quick case, GRUR 182, 186 (1959)) has eloquently described an action for trademark dilution in the following terms:

> The consideration underlying this special anti-dilution protection is that the owner of such a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of its distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided. Its basic purpose is not to prevent any form of confusion but to protect an acquired asset against impairment.

[65]*See* TRIPS, art. 3 (subject to any exceptions contained in the Paris Convention). . . . The Lanham Act already provides this protection in the United States for foreign nationals. See 15 U.S.C. § 1126(b).

[66]*See* TRIPS, art. 4 (excepting some international agreements).

[67]*See* Paris Convention, arts. 6*quinquies*(B)(3), 10*bis*(3).

[68]*See* Paris Convention, art. 6*quinquies*(B)(1).

[69]TRIPS, art. 21. *But see* Paris Convention, art. 6*quater*(1) (requiring "transfer of the business or goodwill to which the mark belongs").

[70]One could argue, however, that Article 21 of the TRIPS Agreement only negates the Paris Convention requirement of the transfer of "the business," leaving intact the disjunctive requirement of the transfer of "the goodwill." *See* Paris Convention, art. 6*quater*(1). This interpretation would strongly reinforce the prior clear need to assign the goodwill along with the trademark.

[71]*See* Paris Convention, art. 5(c) . . .

[72]A firm allowed to register trademarks without using them might invest substantial resources in thinking up plausible new brand names. . . . The ownership of a vast number of them, and the aggregate licensing revenues that such ownership would command, would be a magnet drawing resources into the activity of creating brand names, probably beyond the optimal level of such investment.

Landes & Posner, [*An Economic Analysis of Trademark Law*] at 281.

[73]*Id.* at 282. Landes and Posner note, however, that:

> The solution is not ideal; it could lead to the premature development and marketing of goods by a firm eager to establish a right in a nifty trademark. But if the elasticity of supply of brand names is as high as we believe, very few individual trademarks will be so valuable apart from the products that they name that a firm will distort its marketing decisions in order to appropriate a particular name.

[74]*See* TRIPS, art. 66 (least developed country members have up to ten years to comply with substantive TRIPS standards).

[75]In contrast, such a possibility does exist regarding utility models and patents in accordance with Art. 5A of the Paris Convention.

[76]Where specific design protection does not exist in a certain country (*e.g.* in Greece), but where copyright law constitutes the only possibility of obtaining protection, foreign designs shall enjoy protection under copyright law even where this possibility is excluded under the law of the country of origin of the design at issue.

[77]This means that in this case the criterion of "originality" is not automatically identical to that of "independently created," as is otherwise frequently the case in the Anglo-American use of language.

[78][This seems] to date back to an early Japanese contribution, [cit], dated November 23, 1987, where the proposal to stipulate both novelty and originality as cumulative criteria for protection was motivated by references to patent law, claiming that since design rights conferred principally the same protection as patents, equally restrictive criteria should apply in both fields.

[79]In that only publications within the domestic territory may be taken into account; *e.g.* in the UK, Australia, Canada, etc. . . .

[80]Reichman, 1993 Fordham Intell. Prop., Media & Ent. L.J. 171, at 245; however, the US legislature has not adopted this argument

[81]A so-called must-fit-exception is doubtlessly also permissible pursuant to Art. 25(1), third sentence, as provided for in UK law [cit] and in Art. 9 of the proposal for a Community Design Regulation. . . .

[82]*E.g.* the exclusion of computer programs and semi-conductor products contained in Art. 3(b) of the proposal for a Community Design Regulation, based on the assumption that otherwise undesirable overlaps with the EU Directives concerning this subject matter would arise. . .

[83]In particular in the case of rules directed towards excluding spare parts from design protection, such as the must-match rule in UK law. [cit]. The South African Design Act of 1993 is similar, excluding 'spare parts' from registration as functional designs (in contrast to which they may still claim protection as aesthetic designs subject to fulfillment of the prerequisites).

[84]E.g., the US proposal for a *sui generis* design law, presented in the House of Representatives concurrently to the GATT negotiations, in 1991, H.R. 1790: according to Sec. 1002 of this proposal designs for "motor vehicle glass, including windshields and side and rear vision glass" should be excluded from protection.

[85]Following a recommendation of the European Parliament, the amended texts for the proposals for a Community Design Regulation and Directive stipulate the visibility of the design during ordinary use. The same effect results from the US requirement of "ornamentality."

[86]*See, e.g.,* In re Ford Motor Co. Ltd.'s Design Application, [1994] R.P.C. 545 (Ch. D. 1994).

[87]Problems regarding the compatibility of US law with Art. 25(2), TRIPS Agreement, remain with respect to three-dimensional forms (shapes of clothing etc.) . . .

[88]*E.g.* for patent law (Art. 30) and trademark law (Art. 17).

[89]However, Art. 9(2), Revised Berne Convention, is confined to reproduction; in addition, there is no reference to the "legitimate interests of third parties."

[90]Proposals to declare the compulsory licensing of industrial designs unlawful were submitted by the following delegations: Switzerland, Austria, Hong Kong. The US proposal suggested subjecting compulsory licenses for industrial designs to the same requirements as patents. . . .

[91][Ed Note: This Agreement is often referred to as the "Lisbon Arrangement."]

[92]This interpretation is suggested by Louis C. Lenzen, Bacchus in the Hinterlands: A Study of Denominations of Origin in French and American Wine-Labeling Laws, 58 TMR 145, 185 (1968). . . .

[93]Geographical indications can be misleading although not "false"; see Bundesgerichtshof GRUR 1958, 39 ("Rosenheimer Gummimantel"). Raincoats, advertised as "Rosenheimer Gummimantel" created the impression that they were made by a certain producer, which was misleading; however, they had been produced in Rosenheim, a German town ("Rosenheimer Gummimantel" apparently had acquired "secondary meaning"). Benson, supra note 15 at 139, gives the example of "California Chablis" for a term that is not false but could nevertheless be misleading.

[*][Ed note: This Madrid Agreement of 1891, often referred to as the "Madrid Arrangement," should not be confused with the Madrid Agreement Concerning the International Registration of Marks, also of 1891, which is a far more significant treaty and is dealt with in Chapter V.]

[94]Countries which have traditionally protected geographical indications such as Switzerland, Spain, or Germany have not become members. The United States also is not a member. A group of thirteen African states, however, has expressed their willingness to adhere to the treaty, see the Agreement of Libreville, Prop. Ind. 394 (1970).

[95]On that point the Agreement is directly contrary to the United States trademark law and the Bureau of Alcohol, Tobacco and Firearms (BATF) regulations (see 27 CFR § 4.24(c)(1)) and was the main reason why the United States has not become a member; see also Lee Bendekgey and Caroline H. Mead, International Protection of Appellations of Origin and Other Geographic Indications, 82 TMR 765, 781 (1992).

[96]Examples are the treaties between France and Germany (concluded August 3, 1960 . .), between France and Switzerland (concluded May 14, 1974 . . .) or between France and Italy (April 28, 1964, reprinted in 8 Industrial Property 253 (1969)); recently the EC also has concluded a similar treaty with Australia, see 7 WIPR 87 (1993); Des Ryan, The Protection of Geographical Indications in Australia under the EC/Australian Wine Agreement, 12 EIPR 521 (1994).

[97] . . .For the United States, see Eugene F. Scoles and Peter Hay, Conflict of Laws, at 627, 630 (2d ed 1992). . . .

[98]A definition was introduced in 1966 . . [and] followed the findings of the courts; it is now to be found in L. 115-1and in the Code de la Propriete Intellectuelle, L.721-1 (see Law of July 26, 1993, Journal Officiel 37 (1993)).

[99]Paris, March 19, 1929, Gazette du Palais 1929, 1, 831; the producers were, however, obliged to reveal the true place of origin — a parallel to the semi-generic geographical indications in the United States (infra note 122).

[100]. . . Geographic indications for services can be found in the field of tourism [cit].

[101]One of the examples that was most fought-over in Europe is the German "Bocksbeutel," a wine that is sold only in a specific bottle. In Germany, that form of bottle is reserved for the region of Franconia and a few villages in Baden. When similar bottles were imported, the German courts granted an injunction because 47% of the consumers asked in a survey presumed that wine in such a bottle could only be of German origin (see Bundesgerichtshof, GRUR 1971, 313 "Bocksbeutel"). The European Court of Justice (ECJ) reversed on the grounds that the injunction was contrary to Articles 30, 36 of the EEC Treaty, as long as the Italian producers had used the bottle in good faith for a considerable amount of time, see ECJ 16/83, 1984 E.C.R. 1299.

[102]As long as the perception of the public in the country of use is the determinative criterion for an alleged violation, not all fantasy names or arbitrary uses of geographical names (such as "Atlantic" for magazines or "North Pole" for cigarettes) are prohibited. For a different opinion on that point with respect to the EC Draft, see Bendekgey and Mead, supra note 77 at 786.

[103]See, eg, France (Article L. 711-4 du Code de la Propriete Intellectuelle), United States (Lanham Act § 2(e)), Germany (Article 8(2) MarkenG), Italy (Article 18, 1(e) of the Trademark Law of June 6, 1942, last amended by decree of December 12, 1992). Exceptions in cases in which the name has acquired "secondary meaning" or is used merely as a fantasy name confirm this rule.

[1]See generally A Bogsch, THE LAW OF COPYRIGHT UNDER THE UNIVERSAL COPYRIGHT CONVENTION (1964); UNIVERSAL COPYRIGHT CONVENTION ANALYZED (T. Kupferman & M. Foner ed. 1955) [herein cited as U.C.C. Analyzed].

[2]Henn, The Quest for International Copyright Protection, 39 Corn. L.Q. 43, 44 (1953).

[3]1 S. Ladas, [THE INTERNATIONAL PROTECTION OF LITERARY AND ARTISTIC PROPERTY (1938) at 24.

[4]Decree of Mar. 28, 1852. This remained a part of French law until the principle of reciprocity was introduced by Decree No. 67181 of Mar. 6, 1967.

[5]Solberg, The International Copyright Union, 36 Yale L.J. 68, 81 (1926).

[6]Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886 art. 1.

[7]The original Berne Convention of 1886 came into force on Dec. 5, 1887. It was

amended and supplemented in Paris in 1896 by an additional act and an "Interpretation Declaration" put into operation on Dec. 9 1897. A revision took place in Berlin in 1908 and came into force in 1910. On Mar. 20, 1914, an "Additional Protocol to the revised Berne Convention of 1908" was signed in Berne, and took effect a year later. The Berlin text was revised in Rome, and the Rome text was signed in 1928 and came into force in 1931. The next revision took place in Brussels, where it was signed in 1948, taking effect in 1951. The last revision, signed at Stockholm on July 14, 1967, has not yet come into force.

[8]These include, for example, the rights of translation, recording, broadcasting, performing, arranging, and adapting for motion pictures. Arts. 11-14.

[9]Henn, supra, at 52.

[10]*Id.*

[11]See Sherman, The Universal Copyright Convention: Its Effects on United States Law, 55 Colum. L. Rev. 1137, 1161 (1955).

[1]*Id.* at 98.

[2]The 1909 Act exempted foreign language works of foreign origin from the manufacturing requirements. It extended the privilege of securing an "ad interim" copyright, established by the 1905 statute, to English language works; if a copy was deposited in the Copyright Office within thirty days of the first publication abroad, and if an American edition was manufactured and published in the United States within thirty days from the date of deposit, then a full-term copyright could be secured. Id. §§ 21-22.

[3]Dublin, The Universal Copyright Convention, 42 Calif. L. Rev. 89, 98 (1954).

[4]Additional Protocol to the Revised Berne Convention of Nov. 13, 1908, Mar. 20, 1914.

[5]38 Stat. 1785 (1911), T.S. No. 593. The United States also adhered to the Mexico City Copyright Convention of 1902, but at present has relations only with El Salvador under that convention.

[6]Wells, The Universal Copyright Convention and the United States: A Study of Conflict and Compromise, in 8 Copyright Law Symposium 69, 86 (ASCAP 1957).

[7]Article 27 of the United Nations Universal Declaration of Human Rights declares: "Everyone has the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits ... [and] the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author."

[8]M. Janes, [The United States and the Movement for Universal Copyright, 1945-52 (Master's thesis, University of Southern California, 1953; photostat copy in Copyright Office Library)], at 21.

[9]NAFTA Agreement, art. 1701.3

[10]It is beyond the scope of this article to revive the long-standing debate on the existence or lack of substitutes for moral rights legislation in United States law. Suffice it to say that the existence of such a provision gives a rather strong indication that the touted substitutes do not seem to be considered as real equivalents to true moral rights legislation.

[11]NAFTA, art. 1703(1).

[12]See 17 U.S.C. §§ 504 (c), 505 (1994).

[13] In all fairness, however, one must mention that the United States has relented on the issue of copyright notices for films in the sense that the protection of Canadian and Mexican films that had fallen into the public domain in the United States because of a failure to comply with copyright notice requirements are now eligible to be revived. See NAFTA, supra note 2, annex 1705.7, 32 I.L.M. at 680. In the United States, this requirement of the NAFTA was implemented by Pub. L. No. 103-182, 107 Stat. 2057 (1993), and codified as 17 U.S.C. § 104A in 1993. However, Section 104A was subsequently repealed and replaced as required by the GATT. In Pub. L. No. 103-465, 108 Stat. 4814 (1994), the United States enacted a far broader provision making

all Berne Convention works which fell into the public domain in the United States as a result of the failure to comply with United States formalities eligible for renewed copyright, with some restrictions. The new provision is also codified at 17 U.S.C. Section 104A (1994).

[14]The most visible, if not the only, concession to the civilian tradition is the separation of the provisions on sound recordings, in article 1706, from those on copyright per se, in article 1705. NAFTA, supra note 2, arts. 1705, 1706, 32 I.L.M. at 671-72. Had the copyright position been fully pushed, one would have expected the rules pertaining to sound recordings to come under the copyright section.

[1]Section 205 of the Fairness in Music Licensing Act amended Section [101] of the Copyright Act of 1976 by inserting a number of definitions thereto that relate to the new Section 110(5)(B), including the following:

"An 'establishment' is a store, shop, or any similar place of business open to the general public for the primary purpose of selling goods or services in which the majority of the gross square feet of space that is nonresidential is used for that purpose, and in which nondramatic musical works are performed publicly."

"A 'food service or drinking establishment' is a restaurant, inn, bar, tavern, or any other similar place of business in which the public or patrons assemble for the primary purpose of being served food or drink, in which the majority of the gross square feet of space that is nonresidential is used for that purpose, and in which nondramatic musical works are performed publicly."

"The 'gross square feet of space' of an establishment means the entire interior space of that establishment, and any adjoining outdoor space used to serve patrons, whether on a seasonal basis or otherwise."

[2]These quotations are from the Report of the House Committee on the Judiciary, H.R. Rep. No. 94-1476, 94th Congress, 2nd Session 87 (1976). The Report adds that "[f]actors to consider in particular cases would include the size, physical arrangement, and noise level of the areas within the establishment where the transmissions are made audible or visible, and the extent to which the receiving apparatus is altered or augmented for the purpose of improving the aural or visual quality of the performance".

[3]Twentieth Century Music Corp. v. Aiken, 422 U.S. 151 (1975).

[4]The notion "nondramatic musical work" was introduced to Section 110(5) with the 1998 Amendment. However, this notion is also used in the Copyright Act of 1976 in a number of other limitations to the public performance right (Section 110(2), (3), (4), (6) and (7)), and certain provisions concerning the making of phonorecords (Section 115), jukeboxes (Section 116) and noncommercial broadcasting (Section 118), all of which apply to nondramatic musical works, but not to dramatic works.

[5]The Guide to the Berne Convention, published by WIPO in 1978 ("Guide to the Berne Convention") gives the following explanation on the situation covered by Article 11*bis*(1)(iii): "This case is becoming more common. In places where people gather (cafés, restaurants, tea-rooms, hotels, large shops, trains, aircraft, etc.) the practice is growing of providing broadcast programmes. … The question is whether the licence given by the author to the broadcasting station covers, in addition, all the use made of the broadcast, which may or many not be for commercial ends. … The Convention's answer is 'no'. Just as, in the case of a relay of a broadcast by wire, an additional audience is created (paragraph (1)(ii)), so, in this case, too, the work is made perceptible to listeners (and perhaps to viewers) other than those contemplated by the author when his permission was given. Although, by definition, the number of people receiving a broadcast cannot be ascertained with any certainty, the author thinks of his licence to broadcast as covering only the direct audience receiving the signal within the family circle. Once this reception is done in order to entertain a wider circle, often for profit, an additional section of the public is enabled to enjoy the work and it ceases to be merely a matter of broadcasting. The author is given control over this new public performance of his work." *See* Guide to the Berne Convention, paragraphs 11*bis*.11 and 11*bis*.12, p.68-69.

[6] However, public performance by means of cinematographic works is separately covered in Article 14(1)(ii) of the Berne Convention. Public performance of a literary work or communication to the public of the recitation is covered by Article 11*ter* of the Berne Convention.

[7] In this respect we recall the explanation given in the Guide to the Berne Convention: "The communication to the public of a performance of the work . . . covers all public communication except broadcasting which is dealt with in Article 11*bis*. For example, a broadcasting organisation broadcasts a chamber concert – Article 11*bis* applies. But if it or some other body diffuses the music by landline to subscribers, this is a matter for Article 11." Guide to the Berne Convention, paragraph 11.5, p. 65.

[8]The other main category of implied exceptions are understood to apply to the use of translations of literary works.

[9]The relevant part of the General Report of the Brussels Diplomatic Conference reads as follows:

"Your Rapporteur-General has been entrusted with making an express mention of the possibility available to national legislation to make what are commonly called minor reservations. The Delegates of Norway, Sweden, Denmark, and Finland, the Delegate of Switzerland and the Delegate of Hungary, have all mentioned these limited exceptions allowed for religious ceremonies, military bands and the needs of the child and adult education. These exceptional measures apply to articles 11*bis*, 11*ter*, 13 and 14. You will understand that these references are just lightly pencilled in here, in order to avoid damaging the principles of the right." *See* Annex XII.1 to the letter from the Director General of WIPO to the Chair of the Panel. The statement is also reproduced in the Berne Convention Centenary, op.cit., p. 181.

[10]This is not merely a statement by a chair of a drafting group made in his/her personal capacity.

[11] If there were no possibility for "minor exceptions" from Articles 11*bis* and 11, no *de minimis* exemptions in national law whatsoever, allowing the use of the rights conferred by these Articles without remuneration, could be justified under any provision of the Berne Convention.

[12]The relevant parts of the Report of the Work of Main Committee I (Substantive Provisions of the Berne Convention: Articles 1 to 20) read as follows:

"209. In the General Report of the Brussels Conference, the Rapporteur was instructed to refer explicitly, in connection with Article 11, to the possibility of what it had been agreed to call 'the minor reservations' of national legislation. Some delegates had referred to the exceptions permitted in respect of religious ceremonies, performances by military bands, and the requirements of education and popularization. The exceptions also apply to articles 11*bis*, 11*ter*, 13 and 14. The Rapporteur ended by saying that these allusions were given lightly without invalidating the principle in the right.

210. It seems that it was not the intention of the Committee to prevent States from maintaining in their national legislation provisions based on the declaration contained in the General Report of the Brussels Conference."

[13]For example, Australia exempts public performance by wireless apparatus at premises of, *inter alia*, hotels or guest houses. Belgium exempts a work's communication to the public in a place accessible to the public where the aim of the communication is not the work itself, and exempts the performance of a work during a public examination where the purpose is the assessment of the performer. Finland exempts public performance in connection with religious services and education. Finland and Denmark provide for exceptions where a work's performance is not the main feature of the event, provided that no fee is charged and the event is not for profit. New Zealand exempts public performance of musical works at educational establishments. The Philippines exempts public performances for charitable and educational purposes. A similar exception applies in India, where also performances at amateur clubs or societies are exempted. Canadian law provides for exceptions with respect to different exclusive rights for educational, religious or charitable purposes, and also at conventions and fairs. South Africa exempts public performances in the context of demonstrations of radio or television receivers and recording equipment by dealers of or clients for such equipment. [cit.] Brazil allows free use of works in commercial establishments for the purpose of demonstration to customers in establishments that market equipment that makes such use possible. [cit.]

[14]For example, in their preparatory work for the Brussels Conference, the Belgian Government and BIRPI took the view that it would be impossible to list all of the pre-existing

exceptions exhaustively in the Convention as they were too varied. Documents de la Conférence Réunie a Bruxelles du 5 au 26 juin 1948, published by BIRPI in 1951, p. 255.

[15]Ricketson notes that "[t]he examples of uses given in the records of the Brussels and Stockholm Conferences are in no way an exhaustive list or determinative of which particular exceptions will be justified". *See* Ricketson, Berne Convention, op.cit., p. 536.

[16]In the literature, it has been argued that such exceptions to the rights protected under the relevant provisions of the Berne Convention must be concerned with minimal use, or use without significance to the author. *See* Ricketson, Berne Convention, op.cit., p. 532-535.

[17]As regards the year 1967 as a suggested cut-off date, we note that the substantive provisions of the Stockholm Act of 1967 have never entered into force. Its substantive provisions were later incorporated into the Paris Act of 1971, which entered into force on 10 October 1974.

[18]Paragraph 210 of the Main Committee I Report of the Stockholm Conference uses the term "maintain". However, the original statement in the General Report of the Brussels Conference of 1948, to which the Stockholm records refer, uses the expression "the possibility available to national legislation to make what are commonly called minor reservations".

[19]While Article 9.1 does not mention the minor exceptions doctrine, it does not exclude the possibility that this doctrine was incorporated into the TRIPS Agreement as part of the Berne *acquis* together with the above-mentioned provisions to which it applies under the Berne Convention (1971).

[20]In this respect, we refer to the treatment of moral rights under the TRIPS Agreement. Article 9.1 explicitly excludes Members' rights and obligations in respect of the rights conferred under Article 6*bis* of the Berne Convention (1971) and of the rights derived therefrom.

[21]We recall that, according to Article 32 of the Vienna Convention, "recourse may be had to supplementary means of interpretation, including the preparatory works of the treaty and the circumstances of its conclusion, in order to confirm the meaning resulting from the application of Article 31 …". We see no need to determine whether the GATT Uruguay Round documentation constitutes "preparatory works " or relate to the "circumstances of … [the] conclusion" of the TRIPS Agreement as annexed to the Agreement Establishing the WTO.

[22]MTN.GNG/NG11/W/24/Rev.1 of 15 September 1988.

[23]See GATT document MTN.GNG/NG11/6, paragraphs 39 and 40 and Annex

[24]MTN.GNG/NG11/W/32/Rev.2 of 2 February 1990 . . . sets out the provisions of the international treaties existing at that time corresponding to the proposals [made in the Group]. The Secretariat prepared the content [of the document] drawing on the above-mentioned document prepared by the International Bureau of WIPO. . . .

[25]We find a further confirmation of our interpretation in the negotiating history of Article 9.1 of the TRIPS Agreement. Earlier drafts of that Article referred merely to "the substantive provisions" of the Berne Convention (1971), indicating that the intention was to embody the overall Berne *acquis* rather than just the literal wording of the individual articles. During the negotiations a preference was expressed for identifying these substantive provisions. As a result, these provisions where identified in the final version of the Article as "Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto". It appears that this was done for the sake of clarity, and there is no indication in the records that there was an intention to change the aim of embodying the overall Berne *acquis*.

[26]Article 9(2) of the Berne Convention (1971) provides: "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."

[27]The preparatory works to Article 9(2) of the Berne Convention may be illustrative of how the language used was originally intended to be understood. While Article 9(2) may form part of the context of Article 13, preparatory works and negotiating history would, of course, be relevant primarily in the framework Article 32 of the Vienna Convention, e.g., for purposes of

confirming an interpretation developed consistent with Article 31 of the Vienna Convention.

[28]Records of the Intellectual Property Conference of Stockholm. June 11 to July 14, 1967. Report on the Work of Main Committee I (Substantive Provisions of the Berne Convention: Articles 1 to 20). . .

[29][A]s we noted in paragraph 6.72 above, the wording of Article 13 derives largely from Article 9(2) of the Berne Convention (1971) which applies, however, to reproduction rights only. Given the similarity of the wording, we consider that the preparatory works of Article 9(2) of the Berne Convention and its application in practice may be of contextual relevance in interpreting Article 13 of the TRIPS Agreement.

[30]Appellate Body Report on *United States – Standards for Reformulated and Conventional Gasoline*, adopted on 20 May 1996, WT/DS2/AB/R, p. 23.

[31]The New Shorter Oxford English Dictionary ("Oxford English Dictionary"), Oxford (1993), p. 364.

[32] Oxford English Dictionary, p. 2971.

[33]Oxford English Dictionary, p. 345.

[34]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.

[35] . . . . 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, tea-rooms, snackbars, etc. and retail stores. However, other sectors, e.g. hotels, financial service outlets, estate property brokers, other types of service providers, in which a number of establishments are likely to be exempted as well, were not taken into account.

[36]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:

(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. *See* Exhibit EC-7.

[37]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.

[38]These include, e.g., CDs, tapes, jukeboxes or live music. Music played on radio and television is probably more interchangeable with recorded music than with live music performance. However, the fact that there is a different degree of elasticity of substitution does not mean that the effect of substitution between different sources of music is negligible.

[39]Documents de la Conférence Réunie a Bruxelles du 5 au 26 juin 1948, published by BIRPI in 1951, p. 266. . . . .

[40]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.

[41]Broadcast Music, Inc. v. Claire's Boutiques Inc., US Court of Appeals for the Seventh Circuit, No. 91-1232. 11 December 1991.

[42]Broadcast Music, Inc. v. Edison Bros. Stores Inc., US Court of Appeals for the Eight Circuit, No. 91-2115, 13 January 1992.

[43]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.

[44]Oxford English Dictionary, p. 888.

[45]Oxford English Dictionary, p. 1940.

[46]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* the 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.) As reproduced in the Berne Convention Centenary, p. 197.

[47]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).

[48]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. . . .

[49]Ricketson, The Berne Convention, op. cit., p. 483.

[50]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 BIPRI, p. 42.

[51]In this regard, the United States refers to Article 1.1 of the TRIPS Agreement, which provides that Members "shall be free to determine the appropriate method of implementing the provisions of this Agreement".

[52]Letter, dated 18 November 1999, from the NRA to the USTR. Confidential exhibit US-18.

[53]Written statement by the President of ASCAP, Ms. Marilyn Bergman, dated 31 July 1997, to the Subcommittee on Courts and Intellectual Property, House Judiciary Committee. Exhibit US-20.

[54] Oxford English Dictionary, p. 2496.

[55]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".

[56]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. . . .

[57]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* the Guide to the Berne Convention, paragraph 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).

[58] In addressing the question of effects on right holders from the European Communities, the United States and other WTO Members, we note that Article 1.3 of the TRIPS Agreement provides that "Members shall accord the treatment provided for in this Agreement to the nationals of other Members. . . .". For the purposes of this dispute, this provision means that the United States is required to observe the obligations of the TRIPS Agreement with respect to nationals of all other WTO Members including, but not limited to, EC nationals.

[59]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.

[60]The 'droit de suite' in the Berne Convention (art. 14bis) or the comparison of terms in the Berne Convention (art. 7(8)).

[61][Rome Convention, art. 16(a)(a)(I)]

[62][Rome Convention, art. 16(a)(a)(I)]

[63]See eg, Law on Public Libraries, 27 May 1969 (amended 26 June 1975), art 19 in Denmark.

[64]Public Lending Right Act 1980.

[65]German Copyright Law, art. 54(2).

[66]A case where a 'rose by any other name' does *not* 'smell just as sweet'.

[67]*See* F. Melichar, Deductions Made by Collecting Societies for Social and Cultural Purposes in the Light of International Copyright Law, 22 IIC 47 *et seq.* (1991).

[68]Countries may be excused for holding back on national treatment (in a case where there is no clear obligation binding it), towards a country which openly claims it, in member countries for a certain right, without making any perceivable efforts to institute itself the corresponding right, although it could economically well afford to provide for it in its laws. A slow process in legislative developments may explain the absence, over a long period of time, of what it might ultimately be willing to provide; but in the meantime money will roll just in one direction. Ethics or economics?

[69]Berne Convention, art. 3(2).

[70]See Berne Convention, art. 3(2) 'authors . . . who have their habitual residence' in a Union country.

[71]Berne Convention 1886, art. 2(3).

[72]Berne Convention 1971, art. 5(4).

[73]Berne Convention, art. 7(8). Comparison of terms in the Universal Copyright Convention (art IV (a)), is made for published works by comparing with the country of first publication and for unpublished works by comparing with the country to which the author belongs. . . .

[74]For definitions of 'publication' see Berne Convention, art 3(3); . . . and Universal Copyright Convention, art VI. . . .

[75]If the work is valuable it may therefore be wise to publish a limited edition of the original in the U.K. or U.S. first to establish the connecting factor and secure protection by the conventions. See Cornish *Intellectual Property* (1981) p. 340 note 25.

[76]Berne Convention, art. 3(4)

[77]Rome Convention, art. 3(d).

[78]Under the Rome Convention the criterion of first publication can be excluded as a point of attachment (art. 5(1) . . .); the result is that the sole points of attachment are the nationality of the producer or the fixation of the recording. If a country excludes the criterion of publication, as some Nordic countries do, it is for this very reason: to exclude simultaneous publication protecting a phonogram which is made in a non-convention country by a producer who is a national of a non-convention country.

[79]Ulmer, *Intellectual Property Rights and the Conflict of Laws* (1978) p. 10.

[80]Indeed, in the earliest discussions concerning the Internet and its implications for copyright, some commentators argued that content subject to such rights could not be controlled on the Internet, and authors would have to find new ways to make money in cyberspace. See L. Lessig, "The Law of the Horse: What Cyberlaw Might Teach," Harv. L. Rev. (1999); C. Mann, "Who Will Own Your Next Good Idea,", The Atlantic Monthly (September 1998); see also "Digital Rights and Wrongs," Economist, at p.95 (July 17, 1999). As the WIPO Internet Treaties of 1996 demonstrate, however, copyright continues to play an essential role in this new

environment.

[81]Even without the effects that can result from copyright infringement, these markets will face considerable pressures generated by new business models and disintermediation in the networked environment. See "The Economic and Social Impacts of Electronic Commerce: Preliminary Findings and Research Agenda," OECD, at ch.4 (1999) (URL) (in particular, the OECD highlights the effects of disintermediation).

[82]Berne Convention, art. 9(2); TRIPS Agreement, art.13.

[83]Berne Convention art. 9(1). See also Rome Convention Art. 10 and TRIPS Agreement, Art. 14 (providing to phonogram producers the right to authorize or prohibit the "direct or indirect" reproduction of their phonograms). The WPPT also provides to both phonogram performers and producers a broad right of reproduction, whether "direct or indirect," and "in any manner or form." WPPT Articles. 7 and 11. . . .

[84]See Art. 5(1) of Proposal for a European Parliament and Council Directive on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society.

[85]See WCT, Article 8; WPPT, Article 14.

[86]See WCT, Article 10; WPPT, Article 16.

[87]*See* WCT, Agreed Statement Concerning Article 10; WPPT, Agreed Statement Concerning Article 16.

[88]See WCT, Article 11; WPPT, Article 18.

[89]*See* WCT, Art. 12; WPPT, Art. 19.

[90]These concerns relate not only to fair use, but to all permitted uses under the Copyright Act, including those made possible by the idea-expression dichotomy and the first sale doctrine. For purposes of our discussion here, we will refer to all of these user privileges collectively as fair use interests.

[91]The extent to which restrictions can be imposed by contract on uses that would otherwise be permissible under copyright law has also become a controversial issue. See, e.g., ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (holding that the Copyright Act does not generally preempt contract claims).

[92]Professor Kitagawa (University of Kyoto), early on, described the extent to which computerized systems may affect the administration of copyright. His "Copymart" concept, developed in 1989, was designed to "create a new market for handling collective management of copyright, enabling us to access copyright information filed in that market and to obtain copies of intended works of various kinds from it. The proposed market ... is a database." See Prof. Z. Kitagawa, "Copymart: A New Concept – An Application of Digital Technology to the Collective Management of Copyright," at p.140, WIPO Worldwide Symposium on the Impact of Digital Technology on Copyright on Copyright and Neighboring Rights (1993).

[93]Such numbers or codes may be "intelligent," containing useful information about nationality, category of work or object, licensing conditions, etc., or they may be "dumb" or "mute," merely referring to a database from which the relevant information may be extracted. Projects are underway to develop network-based identification systems that build upon existing numbering systems, such as, for example, the International Standard Book Number (ISBN), the Publisher Item Identifier (PII), the International Standard Music Number (ISMN) and the *"Compositeur, Auteur, Editeur"* (CAE) code. One such project is the Digital Object Identifier (DOI) format, which is discussed in the presentation of Dr. N. Paskin, Director, International DOI Foundation, WIPO International Conference on Electronic Commerce and Intellectual Property (September 1999), at http://ecommerce.wipo.int/meetings/1999/index.html.

[94]For example, the Malaysian Multimedia Supercorridor, established by the Malaysian Government in 1994, will require a system of multimedia rights clearance.

[95]For example, the Media Image Resource Alliance (MIRA), the US-based Copyright Clearance Center (CCC), the UK Copyright Licensing Agency's Rapid Clearance Service (CLARCS), the Australian Copyright Agency Ltd.'s Copyright Xpress and the UK-based Authors'

Licensing and Collecting Society's By-Line, discussed in the presentation of Dr. D. Gervais, Copyright Clearance Center, WIPO International Conference on Electronic Commerce and Intellectual Property (September 1999), at http://ecommerce.wipo.int/meetings/1999/index.html.

[96]See INDECS Metadata Schema at *http:/:www.indecs.org*. Another project for development of a metadata system for use mainly with texts is the "Dublin Core" initiative, involving participants from Australia, Canada, Denmark, Finland, France, Germany, Japan, Norway, Sweden, Thailand, United Kingdom and the United States of America. See presentation of D. Gervais, Copyright Clearance Center, WIPO International Conference on Electronic Commerce and Intellectual Property (September 1999), at http://ecommerce.wipo.int/meetings/1999/index.html.

[97]*But see, e.g.*, 17 U.S.C. § 104A (restoring copyright in non-U.S. Berne and WTO works whose copyrights expired due to failure to comply with U.S. formalities).

[98]*See id.*, arts. 2 & 3.

[99]*See id.*, art. 5.

[100]For example the exclusive recording right of musical works and the right of authors to authorize the reproduction and public performance of their work by means of a cinematograph were introduced by the Berlin Revision of 1908 (art. 13 and art. 14), the moral right to claim paternity of a work and the right to "object to any deformation, mutilation or other modification" of the work as well as the broadcasting right were introduced at the Rome Revision Conference of 1928 (arts. 6bis and 11bis), and the droit de suite was added at the Brussels Revision of 1948 (art. 14bis para. 1). The 1971 revision set forth the reproduction right, but also posed general terms under which member states could provide for exceptions to that right (arts. 9.1, 9.2) *See* BERNE CONVENTION, *supra* note 4.

[101]For example, in 1989, when the U.S. adhered to the Berne Convention, it did not amend the 1976 Copyright Act to provide for the rights of attribution and integrity guaranteed by Berne Conv. Art. 6bis. Congress took the position that these rights already existed in the Copyright Act, or in other dispositions in the trademarks law or at common law. *See* H.R. Rep No. 609, 100th Cong., 2d sess. at 37 (stressing that then-Director-General of WIPO Arpad Bogsch endorsed the U.S. view that its pre-Berne adherence positive law satisfied art. 6bis). This assertion has prompted considerable skepticism, see, e.g., Adolf Dietz, *The United States and Moral Rights: Idiosyncracy or Approximation? Observations on a Problematical Relationship Underlying United States Adherence to the Berne Convention*, 142 RIDA 222 (Oct. 1989).

[102]TRIPs does not, however, incorporate article 6*bis* of the Berne Convention (moral rights). *See* TRIPs art. 9.1.

[103]*Id.* art. 10.

[104]*Id.* art. 11.

[105]*Id.* art. 13.

[106]*Compare* TRIPs arts. 41 - 61 *with* Berne Convention art. 16.

[107]WCT arts. 11, 12.

[1]With the following important exception: art. 11 requires member states to protect against "the circumvention" of technological measures; it is not completely clear whether this text requires prohibition not only of direct acts of circumvention, but also of the manufacture and dissemination of circumvention devices. The U.S. and the E.U. have interpreted art. 11 in the latter sense. See 17 U.S.C. § 1201(b); Amended Proposal for a European Parliament and Council Directive on the harmonisation of certain aspects of copyright and related rights in the Information Society (COM 1999 250 final 97/0359/COD) (May 21, 1999) [hereinafter Information Society Draft Directive], art. 6.2.

[2]*See, e.g.*, HENRI DESBOIS, ANDRÉ FRANÇON, ANDRÉ KÉRÉVER, LES CONVENTIONS INTERNATIONALES DU DROIT D'AUTEUR ET DES DROITS VOISINS 216-21 (1976); RICKETSON, *supra* note 2, at 589.

[3]*But see* Sam Ricketson, *People or Machines? The Berne Convention and the Changing*

Concept of Authorship, 16 Colum.-VLA J. L. & the Arts 1 (1991) (contending that the Berne Convention implicitly designates the human creator, rather than juridical persons, as the author and initial copyright owner).

[4]Berne Conv., art. 15.1.

[5]*See* Jane C. Ginsburg, *Surveying the Borders of Copyright*, 41J. Copyr. Soc. 322, 327 (1994).

[6]TRIPs, art. 10; WCT, art. 5 (databases).

[7]. . . Query whether the EU's "*author's own* intellectual creation" standard (emphasis supplied) is higher than the TRIPs-WCT "intellectual creation" standard.

[8]TRIPs, art. 9.2; WCT art. 2.

[9]*Compare Lotus v. Borland*, 49 F.3d 807 (1st Cir. 1995), *aff'd. by an equally divided Court*, 116 S.Ct. 804 (1996) (spreadsheet program's menu commands held a "method of operation") *with American Dental Association v. Delta Dental Plans Ass'n.*, 126 F.3d 977 (7th Cir. 1997) ("taxonomy," system of classifying dental procedures, held not a "method of operation").

[10]*Compare* Berne Conv. Arts. 10 (certain exceptions), 10bis (certain exceptions), 11 (certain public performance rights), 11bis (broadcasting rights), 11ter (certain public performance rights) *with* TRIPs art. 13 (exceptions); WCT arts. 8 (right of communication to the public); 10 (exceptions and limitations).

[11]*See* TRIPs, art. 9.1.

[1]*See* TRIPs, art. 64 (dispute settlement). The U.S. is currently the target of a dispute resolution proceeding brought by the European Union regarding 17 U.S.C. § 110(5)(B), which exempts certain commercial establishments from liability for public performances by means of performing works by radio and television, WT/DS160/1-IP/D/16, filed January 26, 1999. Art. 33 of the Berne Convention provides for intergovernmental resort to the International Court of Justice, should one country of the Union object to another's interpretation or application of the Convention's provision, but Art. 33 also permits a union member, upon ratifying to "declare that it does not consider itself bound" by that provision.

[2]*See* TRIPs, art. 6; WCT, art. 6.2.

[3]*See* TRIPs, art. 3; Berne Conv., art. 19.

[4]*See* Duration Directive, art. 9; Recital 21.

[5]*See* Software Directive, art. 2.1; Database Directive, art. 4.1.

[6]*See* Software Directive, art. 2.1; Database Directive, art. 4.2; Duration Directive, arts. 1.2, 1.4.

[7]*See* Rental Right Directive, art. 2.2; Satellite Directive, art. 1.5..

[8]*Compare.* Federal Republic of Germany, Copyright Law of 1965 (as amended), art. 8.1 (joint works are those whose "respective contributions cannot be separately identified"); U.K., 1988 Copyright Designs and Patents Act, art. 10(1) ("contribution of each author is not distinct from that of the other author or authors") *with* Belgium, Copyright Law of June 30, 1994, art. 5.1 (joint works contributions may be "individualized"); France, Code of Intellectual Property, art. L-113-2.1 (joint work is "a work in the creation of which more than one natural person has participated").

[9]*See* Duration Directive, art. 1.1 (single authored work's duration), 1.2 (joint work's duration), 1.4 (collective work's duration).

[10]*See* Software Directive, art. 1.2, Duration Directive, art. 1.4; Database Directive, art. 4.1.

[11]*See* Rental Right Directive, art. 1.6.

[12]This is usually the country of origin, but it could also be the one whose law is designated in the employment or commissioned work contract.

[13]*Compare* 17 U.S.C. § 107 (fair use) *with* Draft Information Society Directive, art. 5.2 - 3 (list of authorized exceptions).

[14]See Jane C. Ginsburg, *Copyright or "Infograb"? Comment on General Report on Limitations Found Outside Copyright* (forthcoming in the proceedings of ALAI Study Days, Cambridge, U.K. 1998).

[15]*See* 17 U.S.C. § 110(5)(B) . . .

[16] German copyright law, art. 46.

[17]Draft Information Society Directive, art. 5.3(d).

[18]*Compare*, German copyright law, art. 49.1; France CPI, art. L-122-5, 3o(b) (both specifying *revue de presse* exceptions) *with* U.K. CDPA, art. 30; Belgian copyright law, arts. 21-22 (neither specifying a *revue de presse* exception).

[19][These discussions led to the December 1996 adoption of the WCT and WPPT, discussed above.]

[20]The Berne Convention had in fact accorded protection to certain kinds of cinematographic production since the Berlin Act 1908 (Art. 14(2) and (3)). *See* SAM RICKETSON, "The Berne Convention for the Protection of Literary and Artistic Works: 1886-1986" Chapter 10 (Centre for Commercial Law Studies, Queen Mary College, University of London 1987).

[21]*Cf.* Berne Convention, art. 14*bis*(2)(a).

[22]See RICKETSON, . . . at 6.78 *et seq.* Ricketson points out (at 6.76) that the exclusion of sound recordings is anomalous in view of the protection of cinematographic and photographic works under the Berne Convention and suggests this is better explained in terms of history than any argument based on the relative merits of the skills and originality required for each kind of production. The exclusion appears even more anomalous now that computer programs and databases are accepted as meeting the requirements of the Berne Convention. The originality in the selection, coordination or arrangement of the recorded performance is as much a creation as the selection, coordination or arrangement of data.

[23]Decree of 10 July 1942 conferring on phonographic works the character of works protected by the Law of intellectual Property, 1879.

[24]Prior to the 1965 Act, the protection of performers and producers of phonograms was governed by the Act Concerning Copyright in Literary and Musical Works, of 19 June 1901, as amended in 1910, and the Act extending the term of copyright protection of 13 December 1934. Section 2(2) of the Act, as amended in 1910, assimilated recordings of literary and musical works to adaptations of those works. The performer was the beneficiary of the right, the producer acquiring rights of his own by contract. According to ULMER, 1961 *Le Droit d'auteur* 14, the intention of the legislature was to protect the record producer against unauthorised reproduction.

[25]The major exception to this rule was the United States of America, which did not introduce specific federal protection under the copyright law for sound recordings until 1971 (Public Law 92-140 (92d Congress S. 646) of 15 October 1971).

[26]Committee of Experts on Model Provisions for Legislation in the Field of Copyright, Third Session, Geneva, 2 to 13 July 1990, para. 42.

[27]CARLOS M. CORREA, *TRIPS Agreement: Copyright and Related Rights*, 25 I.I.C. 543 (1994).

[28]310Report adopted by the Committee, 1990 Copyright 282, para. 26.

[29]Copyright Act 1965, Sec. 2(2); and *see* Federal Supreme Court, Case No. IZR 52/83 - *Inkasso-Programm,* 17 IIC 681 (1986).

[30]Trade Act of 1974, Pub. L. No. 93 - 618 § 2, 88 Stat. 1978 (1975). Statement of General Purposes sets out that: The purposes of this Act are, through trade agreements affording mutual benefits -- (1) to "foster the economic growth of and full employment in the United States and to strengthen economic relations between the United States and foreign countries through open and nondiscriminatory world trade; (2) to harmonize, reduce, and eliminate barriers to trade on a basis

which assures substantially equivalent competitive opportunities for the commerce of the United States; (3) to establish fairness and equity in international trading relations, including reform of the General Agreement on Tariffs and Trade; (4) to provide adequate procedures to safeguard American industry and labor against unfair or injurious import competition, and to assist industries, firms, workers, and communities to adjust to changes in international trade flows; (5) to open up market opportunities for United States commerce in nonmarket economies; and (6) to provide fair and reasonable access to products of less developed countries in the United States markets."

[31]S. Rep. No . 1298, 93d Cong., 2d Sess. (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7304.

[32]The Office of the United States Trade Representative (USTR) was established in 1982 under 19 U.S.C. § 2171. The USTR is an office within the Executive Office of the President. The USTR is responsible for conducting international trade negotiations. [cit].

[33]19 U.S.C. §§ 2411-2420 (1988).

[34]Generally, by April 30 of each year.

[35]The definition of an interested person "includes, but is not limited to, domestic firms and workers, representatives of consumer interests, United States product exporters, and any industrial user of any goods or services that may be affected" by actions taken under section 301. 19 U.S.C. § 2411(d)(9).

[36]In the 1993 Congressional hearings, for example, Nintendo of America and Cone Mills Corp. (textile manufacturer) as well as the U.S. Trademark Association, the Recording Industry of America, the International Intellectual Property Alliance, the Business Software Alliance, and the Pharmaceutical Manufacturers Association, all submitted testimony, among others.

[37]Up until this time, Special 301 had been used to name countries on the two Watch Lists only. In 1991 the Bush administration identified China, India and Thailand as the first Special 301 Priority Foreign Countries. [cit]

[38]Special 301 and the Fight Against Trade Piracy: Hearing Before the Subcomm. on International Trade of the Comm. on Finance, 103d Cong., 1st Sess. 19 (1993) . . .

[39]. . . The Chinese, however, have not only beefed up their intellectual property regulatory regime, but also have increased penalties for violators. As of July of 1994, it is a criminal offense to violate a copyright in China (although punishment is only for those who have knowledge that they areviolating another's copyright.). [cit]. Even before that, however, the Chinese would occasionally come down hard on serious violators of intellectual property rights. In January of 1994, for example, an approximately $25,000 fine was levied on a Chinese computer copyright infringer, [cit], and in 1993 one man was sentenced to death for charges related to the selling of counterfeit brand-name cigarettes. [cit].

[40]Threats to block imports of U.S. records, cigarettes, alcoholic beverages, televisions shows, and movies were made by Chinese officials and the Chinese Ministry of Foreign Economic Trade and Economic Cooperation stated that it would refuse to consider requests from U.S. companies to establish subsidiaries in China. U.S. & China Spar Over Piracy, Newsbytes News Network, Jan. 3, 1995.

[41]Marcus W. Brauchli & Joseph Kahn, China Moves Against Piracy As U.S. Trade Battle Looms, Asian Wall St.J., Jan. 6 -7, 1995, at 1.

[42]The Business Software Alliance ("BSA") is a U.S. industry group dedicated to protecting the property and rights of member industries. Member companies account for over 70% of the U.S. prepackaged software market. Members include Aldus Corp., Apple Computer, Autodesk, Borland International, GO Corp., Lotus Development, Microsoft, Novell, and WordPerfect. BSA has been very active and visible in countries that BSA feels do not adequately protect its members' products.

[43]This may not be as obvious as it sounds. The base tariff rate for goods imported into the United States was developed under the Tariff Act of 1930 and is commonly called the Smoot-Hawley tariff rate. These rates are very high and, in fact, are considered to be one of the triggering events to the self-interested policies that led to the collapse of the world economy in the 1930s. The great majority of products imported into the U.S., however, are imported under the Most Favored Nation

rates. These rates are considerably lower and are amended to reflect latest trade agreement rates. As for the General System of Preferences (GSP) benefits, at present over 100 countries receive these preferential tariff rates. Other preferential status rates that the United States has employed include Caribbean Basin Initiative, NAFTA, and Israeli Free Trade Agreements. Therefore, the "privilege" is extended to most countries.

[44]Richard T. Rapp & Richard P. Rozer, Benefits and Costs of Intellectual Property Protection in Developing Countries, 24 J. World Trade 75 (1990).

[45]George Y. Gonzalez, An Analysis of the Legal Implications of the Intellectual Property Provisions of the North American Free Trade Agreement, 34 Harv. Int'l L.J. 305, 314 (1993).

[46]Jonathan C. Carlson, Law and Leadership in the Global Schoolyard, 75 Iowa L. Rev. 877, 886 (1990).

[47]Levi Strauss decided to leave the China market in late 1993, stating that it was opposed to the use of prison and other "slave" labor in China.

[48]American piracy is discussed in Albert J. Clark, The Movement for International Copyright in Nineteenth Century America (1960).

[49]See, e.g., Dennis S. Karjala, Copyright, Computer Software and the New Protectionism, 28 Jurimetrics J. 33 (1987).

[50]See, e.g., Charles McManis, International Protection for Semiconductor Chip Designs and the Standard of Judicial Review of Presidential Proclamations Issued Pursuant to the Semiconductor Chip Protection Act of 1984, 22 Geo. Wash. J. Int'l L. & Econ. 331 (1988).

[51]This view is suggested by the work of Richard Adelstein and Steven Peretz—whose work might be seen as an elaboration of North and Thomas on the indispensability of clear property rights to economic development. See Richard P. Adelstein and Steven I. Peretz, The Competition of Technologies and the Market for Ideas: Copyright and Fair Use—An Evolutionary Perspective, 5 Int'l Rev. L. & Econ. 209 (1985).

[52]The implications of this problem are treated at greater length in William P. Alford, The Inscrutable Occidental: Roberto Unger's Uses and Abuses of the Chinese Past, 64 Tex. L. Rev. 915 (1986) and William P. Alford, On the Limits of "Grand Theory" in Comparative Law, 61 Wash. L. Rev. 945 (1986).

[53]Of late, in its dealings with the P.R.C., the USTR has begun to emphasize enforcement—but again with the assumption that Beijing has the capacity readily to control economic activity in Guangdong and other distant areas. The fallacy of that assumption is discussed in William P. Alford, Underestimating a Complex China, Chi. Trib., May 24, 1994, at 23.

[54]The standard Chinese phrase for traitor, hanjian, literally means "traitor to the Chinese." The cited adaptation suggests the deep fissures that course through the ROC and its legal profession.

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[**]Understanding on Rules and Procedures Governing the Settlement of Disputes, art. 3.8, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization [hereinafter WTO Agreement], Annex 2, Legal Instruments—Results of the Uruguay Round vol. 31, 33 I.L.M. 112 (1994) [hereinafter DSU].

[55]In one scenario, innovations could flow more readily across state lines in the absence of intellectual property protection: competitive markets produce more goods at cheaper prices, making works available in markets that could not afford to pay the monopoly rents associated with exclusive rights. In the opposite scenario, innovations flow through investment and licensing, which is made more likely by the existence of intellectual property protection in the receiving country.

[56]It is not insignificant that one of the places where negotiations over the TRIPS Agreement in the Uruguay Round broke down was over the issue of parallel imports. Doctrines that deem authorized sales in one trading region to exhaust intellectual property interests in other regions have the advantage of facilitating the movement of goods. Thus, an exhaustion doctrine would be in the spirit of the remainder of the free trade provisions of the GATT. At the same time, however, these

doctrines limit rights holders' ability to extract maximum profits from their intellectual products by granting distinct territorial licenses to different users. Thus, exhaustion doctrines discourage innovation and are somewhat contrary to the spirit of TRIPS. Exhaustion, then, is one issue that could have forced the drafters of TRIPS to consider the inconsis tency between free trade and intellectual property protection. Instead, they provided in article 6 that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." TRIPS Agreement art. 6; [cit]

[57]For example, [Gail] Evans [has] note[d] that the Punta del Es te Declaration described the TRIPS negotiating group's mandate as aimed at reducing "distortions and impediments to international trade," quoting Ministerial Declaration on the Uruguay Round, Sept. 20, 1986, GATT B.I.S.D. (33d Supp.) at 25-26 (1986). "Trade distortion" was interpreted by the United States as loss of comparative advantage through failure to enforce intellectual property rights. The same term was interpreted by India as foreign government intervention in the market place in the name of protecting intellectual property rights. . . .

[58]Article 64(2) of the TRIPS Agreement provides that subparagraphs 1(b) and 1(c) of article XXIII of the GATT 1994, the non-violation provisions, "shall not apply to the settlement of disputes under this Agreement for a period of five years from the date of entry into force of the WTO Agreement." This special moratorium is applicable to all member states, and is independent of the grace periods available to developing countries or countries in transition to market economies.

[59]See DSU arts. 3.1, 26.1

[60]Compare Vienna Convention on the Law of Treaties, opened for signature May 23, 1969, arts. 31-32, 1155 U.N.T.S. 331, 8 I.L.M. 679 (1969) [hereinafter Vienna Convention] which lists the preparatory work of a treaty and the circumstances of its conclusion as "supplementary means of interpretation," with Restatement (Third) of the Foreign Relations Law of the United States § 325 cmt. e (1986), which, reflecting the American practice, is more receptive to using negotiating history and other surrounding circumstances as aids to interpretation of international agreements.

[61]Vienna Convention, supra note 29, art. 31(1).

[62][Cf.] 1 The GATT Uruguay Round: A Negotiating History (1986-1992) 2246 (Terence P. Stewart ed., 1993) [hereinafter Negotiating History], noting that several contracting parties were dissatisfied with various aspects of then-extant international intellectual property treaties. . . .

[63]See 1 Negotiating History, supra note 31, at 2290-91.

[64]See generally J.H. Reichman, The Know-How Gap in the TRIPS Agreement: Why Software Fared Badly, and What Are the Solutions, 17 Hastings Comm. & Ent. L.J. 763, 768 (1995) [hereinafter Reichman, Know-How Gap], noting that there was general reluctance to grant patents on programs in all the developed countries. The United States relented first. After that, patents on software were issued in Japan and European Union countrie s, but considerable ambivalence on the question remains. Professor Reichman would regard it as incompatible with the TRIPS Agreement for a member state to refuse to permit an inventor to even argue that a particular program met the standards for patent protection. Id. at 769.

[65]DSU arts. 3.2, 19.2. The concern about lawmaking by WTO panels is not confined to states in the civil law tradition. See, e.g., U.S. Uruguay Round Agreements Act § 102 (a)(1), 19 U.S.C. § 3512 (a)(1), which provides:

> No provision of any of the Uruguay Round Agreements, *nor the application of any such provision to any person or circumstance*, that is inconsistent with any law of the United States shall have effect. (emphasis added).

[66]Third parties are entitled to participate both in the consultation process that precedes formal adjudication, DSU art. 4.11, and in the actual proceedings before panels, id. art. 10. They may also participate in a limited way in appeal proceedings. Id. art. 17.4. In each context, however, it is understood that third parties must have an actual and current trade interest in the dispute, and participation in the appeal proceeding appears to be limited to members that have participated in the proceeding before the panel.

[67]See also Reichman, Know-How Gap, *supra* note [36], at 773, who suggests that as consensus

emerges on particular issues among member states, the topics should be set down for review pursuant to the terms of article 71 of the Agreement.

[68]For a somewhat different approach, see Reichman, Know-How Gap, supra note 36, at 773, who suggests that a panel could take judicial notice of an emerging consensus among member states.

[69]This approach is in agreement with the views of Steven P. Croley & John H. Jackson, WTO Dispute Procedures, Standard of Review, and Deference to National Governments, 90 Am. J. Int'l L. 193 (1996). Croley and Jackson urge deference to national outcomes on the theory that this will best promote voluntary compliance and multilateral consensus. They also suggest that the variety in cultural values of the parties, the lack of fact-finding resources by panels, and other shortcomings in international procedure argue against panel activism. Id. at 211-13.

[70]*See*, for example, I. Brownlie, Principles of Public International Law, 4th ed. (Clarendon Press, 1990), pp. 40-42.

[71][1926], PCIJ Rep., Series A, No. 7, p. 19.

[72]For simplicity, the text considers only these alternatives. What is said here, however, applies to other fine-tuning provisions, such as the fair use defense in copyright law or the experimental use defense in patent law.

[73]A footnote to article 27(1) of the TRIPS Agreement states: 'For the purposes of this Article, the term[ ] 'inventive step' ... may be deemed by a Member to be synonymous with the term[ ] 'nonobvious.''

[74]For developing countries, there is a four-year grace period. TRIPS Agreement art. 65(2). For countries that had not previously enacted legislation to protect pharmaceuticals, there is an additional five-year grace period. Id. art. 65(4). Least-developed countries may have ten years from the date of application of the substantive provisions of the Agreement to fully comply with these provisions. Id. art. 66(1).

[75]The basic Paris Convention does not guarantee to patent holders in one state patent protection in other member states, but leaves the issues of patentability and infringement to each member state's laws. Paris Convention, art. 2(1). The question here raised is how far this deference to lex fori is changed by the WTO system—the TRIPS Agreement in combination with the DSU.

[76]An interesting illustration of this debate was recently provided by Martin J. Adelman & Sonia Baldia, Prospects and Limits of the Patent Provision in the TRIPS Agreement: The Case of India, 29 Vand. J. Transnat'l L. 507, 525-33 (1996). The authors draw the conclusion from India's large infrastructure in pharmaceutical production, coupled with its past failure to contribute innovations in the pharmaceutical field, that strong intellectual property protection has always been in India's interest. In contrast, J.H. Reichman uses the same data to argue that free-riding is a way for a developing economy to accumulate the skills and capital necessary to become innovative. J.H. Reichman, Compliance with the TRIPS Agreement: Introduction to a Scholarly Debate, 29 Vand. J. Transnat'l L. 363, 381 (1996).

[77]See also article 8.10 of the DSU, which calls for at least one member of a panel to be chosen from a developing state if the controversy concerns such a state; id. art. 21.7, which requires that the impact on the economy of developing countries be taken into account in the panel's recommendations. Article 24 calls for additional consideration and restraint on the part of complaining parties in disputes with least-developed member states.

[78][S]ee also article 7 of the TRIPS Agreement, which states that the Agreement's objective is to:

> 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. (emphasis added).

[79]We note that Judith Bello, Some Practical Observations About WTO Settlement of Intellectual Property Disputes, 37 Va. J. Int'l L., suggests that in taking this view, we are "fabricating" rights or "usurp[ing]" the role of negotiators. However, it is evident to us that any definition of an intellectual property right implies some right for users, and that the TRIPS Agreement, like the Berne and Paris Conventions, reflects this perspective.

[80]If the case were decided by the Patrian court on the ground that Monastery's invention was obvious, then counterfeiting is a possibility. If Xandia can show a persistent unwillingness to recognize any pharmaceutical inventions as inventive enough to merit protection, the case would resemble Case I. If there is no element of persistence, then Patria's decision represents a determination that not much of an investment was needed to create the invention. That determination is some indication that this is not a case where countenancing competitive sales would significantly reduce the incentive to innovate.

[81]TRIPS Agreement art. 13 (with respect to copyright); id. art. 30 (with respect to patents).

[82]See, e.g., Marci A. Hamilton, Art Speech, 49 Vand. L. Rev. 73, 86-96 (1996). Many of these same points can be made with respect to cultural questions raised in the GATT system for the first time by the TRIPS Agreement. For example, may a member state erect a barrier to services when the services in question are performances and the country is concerned that the importing country's culture will drown out its own? May a member state permit unauthorized utilization of trademarks if it believes that trademarks are among the few symbols that many of its citizens can read? May a member give adapters greater leeway with copyrighted works when adaptation is needed to make the works effectively available to the domestic audience? One wonders how these questions would be addressed in the context of membership by China in the WTO, . . .

[83]See TRIPS Agreement arts. 8(2), 40(2).

[84]See, e.g., id. arts. 31, 40.

[85]We say "apparently" because there is doubt that a Patrian court could order Bilker to give a license for activity in Tertia contrary to the laws of that country. See, e.g., Restatement (Third) of the Foreign Relations Law of the United States § 403(2)(g) and Reporter's Note 3 (1986).

[86]Article 40(2), for example, speaks of "practices or conditions that may in particular cases constitute an abuse of intellectual property rights" (emphasis added). See also id. art. 31(a), which specifies that compulsory licenses cannot be authorized without considering the individual merits of the situation; cf. Ernst-Ulrich Petersmann, International Competition Rules for the GATT-MTO World Trade and Legal System, J. World Trade, Dec. 1993, at 35, 59 (1993), who interprets this clause to require case-by-case analysis.

[87]See [Eleanor M. Fox, Trade, Competition and Intellectual Property–TRIPS and its Antitrust Counterparts, 29 Vand. J. Trans. L. 481, 487-88 (1996)], who cites as examples the questions whether patentees may charge excessive prices, refuse all licensees, divide territories, or require grantbacks from licensees–all issues that had arisen in both the United States and the European Community at the time the TRIPS Agreement entered into force. All the cited practices appear to be valid under U.S. law, but to violate EC law.

[88]Article 31 of the TRIPS Agreement provides:

> Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, ... the following provisions shall be respected:
>
> . . .
>
> (h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization[.]

Under paragraph (k), some other conditions are not obligatory when a compulsory license is imposed to remedy a practice determined after judicial or administrative process to be anti-competitive. Paragraph (h) is not among the conditions that may be avoided in such case.

[89]As pointed out in note 12, article 6 of the TRIPS Agreement specifically provides that the Agreement should not be interpreted to address the issue of exhaustion. Usually, exhaustion is found when the product is sold under the authority of the intellectual property holder. Thus, whether the statement in the text is true in a given country will depend on whether the sale of a product in a country that refuses to enforce the intellectual property right is deemed to be a sale under the rights holder's 'authority.'

[90]See DSU arts. 17 & 18. . . . Members of the Appellate Body are elected for four-year terms and may be reelected once, except that three of the members first appointed, selected by lot, will have an initial term of two years, so that the entire membership will never be changed over at once. Any

given appeal is heard by three of the seven members of the Appellate Body serving in rotation, without reference to their nationality.

[91]The formal name of this Agreement . . . is the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994, Apr. 15, 1994, WTO Agreement, supra note 2, Annex 1A.

[92]A pattern along these lines had developed in cases brought under chapter 19 of the Canada-United States Free Trade Agreement, cheered by some but condemned by others. For an early account, see Andreas F. Lowenfeld, Binational Dispute Settlement Under Chapter 19 of the Canada-United States Free Trade Agreement: An Interim Appraisal, 24 N.Y.U. J. Int'l L. & Pol. 269 (1991).

[93]Indeed, it is reported that when the suggestion was made that a single (deferential) standard should be made applicable to all WTO panels reviewing national administrative decisions, the proposal was "greeted with fury" by U.S. intellectual property interests, which did not wish to give to other countries' patent and copyright authorities the deference which the U.S. Trade Representative sought for American antidumping decisions. See Gary N. Horlick & Eleanor C. Shea, The World Trade Organization Antidumping Agreement, J. World Trade, Feb. 1995, at 5, 31 (1995).

[94]See, e.g., Graham v. John Deere Co., 383 U.S. 1 (1966), where the Court held that in a patent case the ultimate issue of nonobviousness consists of four questions: What is in the prior art?; What is the difference between the applicant's invention and the prior art?; What does a person with ordinary skill in the art know?; Could such a person fill the gap? The first three are issues of fact, the last is deemed to be an issue of law.

[95]In the past, the Secretariat has endeavored to fill the role of supplying the sense of continuity, and it may be expected to continue to do so in the future.

[96]Of the first seven members of the Appellate Body, two are (or were) professors of law (but not intellectual property law), one was a justice of his country's Supreme Court, two were career diplomats, one was a professor of economics, and one (the U.S. member) is a practicing attorney and former member of Congress.

[97]The problem of nonenforcement of laws supposed to protect internationally recognized rights is not limited to intellectual property. It became a major issue, for instance, in the negotiation of the North American Free Trade Agreement, and particularly of the so-called side agreements on environmental cooperation and labor cooperation forced through by the Clinton administration after the principal agreement had been completed during President Bush's term. Those side agreements address a concern that a treaty partner (read Mexico) would place acceptable standards on its books but not enforce them; the solution, if it can be called that, was to establish a joint commission, to which nongovernmental as well as governmental organizations could make submissions, which could lead to a process of consultation, arbitration, reports, monetary penalties, and ultimately suspension of benefits under the Free Trade Agreement.

[98]On the other hand, it is worth pointing out that disputes about the enforcement of intellectual property rights have been major impediments to admission into the World Trade Organization for states that have persistently failed to enforce such rights, notably China and Taiwan.

[99]All of the above is set out in article 21 of the DSU. Article 21.4 indicates that the "reasonable period" shall not exceed 15 months from the date of establishment of the panel, which would leave 90 days from completion of the appellate process in normal cases, with more time to be added on if either the panel or the Appellate Body asked for additional time.

[100]For instance, in the case about protection for computer programs, Patria might issue a regulation or adopt legislation that went part way, but not completely, to protecting the innovative aspects of computer programs, or that seemed to grant adequate protection but provided such slight punishment for infringement as to lead Xandia to complain that no real deterrence was involved. Of course, even in Koka Kola, if the panel recommendation included legislative reform or revised resource allocation, renewed controversy might arise about the adequacy of implementation by Patria.

[101]Though the DSU does not say so, it seems clear that any offer by Patria in this context must be

granted on a most-favored-nation basis, because it would not fit into any of the permitted exceptions to that most fundamental principle of the GATT/WTO system.

[102]If the respondent party, Patria in our example, objects to the level of the suspension proposed or claims that the suspension is not consistent with the principles discussed hereafter, the DSU makes provision for still another arbitration, to be completed within 60 days of the expiry of the 'reasonable period.'

[103]See Proclamation No. 5885, 53 Fed. Reg. 41,551 (1988). Brazil called for creation of a GATT panel to rule on whether the U.S. action was legal under GATT, and a panel was in fact convened, but the President of Brazil announced that he would seek legislation to provide patent protection for pharmaceuticals, and the U.S. sanctions were withdrawn before the panel could issue a ruling.

[104]Ecuador's request for suspension under Article 22.2 excludes Denmark and the Netherlands.

[105]Article 22.3(f) of the DSU: "for purposes of this paragraph, 'sector' means: .
(iii) with respect to trade-related intellectual property rights, each of the categories of intellectual property rights covered in Section 1, or Section 2, or Section 3, or Section 4, or Section 5, or Section 6, or Section 7 of Part II, or the obligations under Part III, or Part IV of the Agreement on TRIPS;"
Article 22.3(g) of the DSU: "for purposes of this paragraph, 'agreement' means: .

[*]Netanel based his particular hypothetical upon a set of facts that fell within the "quotation" exemption provided by Article 10(1) of the Berne Convention.

[**********]The author's argument in favor of gray market goods does not encompass those goods that are not identical to those sold with permission of the local trademark owners. Depending on the country of manufacture or intended sale, goods sometimes have different ingredients or formulas. When these goods find their way outside their intended market, a potential for confusion exists. Consumers may need protection from legitimately trademarked products that have the potential to cause confusion. *See, e.g.*, Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 753 F. Supp. 1240, 1545-47 (D. N.J. 1991) (imported "Tic Tacs"contained more calories than U.S. "Tic Tacs", causing confusion actionable under the Lanham Act.).

[**********]Some individuals also worry that importers will "free ride" on advertising conducted by the local trademark owner. This argument, however, goes too far. Virtually all sellers benefit from the tastes created by the advertising of their competitors. When Chrysler's advertising convinced U.S. car buyers that the mini-van was a superior product, Ford and Chevrolet quickly took advantage of the new market created by Chrysler's advertising and marketed their own competing versions of the same product. Free riding is a time-honored, and probably efficient, business activity. . . .

[***]Respondents sued the United States, the Secretary of the Treasury, and the Commissioner of Customs. They also asserted that the Customs Service regulation was inconsistent with § 42 of the Lanham Trade-Mark Act, which prohibits the importation of goods bearing marks that "copy or simulate" United States trademarks. That issue is not before us.

[****]. . .

[*]Justice Kennedy suggests that "the regulation speaks to [this] hypothetical situation," since it "allows a company justifiably invoking the protection of the statute to bar the importation of goods of foreign or domestic manufacture. 19 CFR § 133.21(a) (1987)." Ante, at n.4. This suggestion is puzzling. If, as the majority believes (or as it believes the Customs Service believes), the statute does not exclude the goods in this situation, it is hard to understand how the regulation could do so. The reality, in any case, is that subsection (a) of § 133.21 has nothing to do with § 526(a), but rather implements § 42 of the Lanham Trade-Mark Act, which prohibits importation of goods of foreign or domestic manufacture bearing not genuine trademarks identical to a United States trademark, but trademarks that "copy or simulate" a recorded trademark. It is subsection (b) of § 133.21 that implements § 526(a), and which, consistent with that statute, only prohibits importation of "[f]oreign-made [but not domestic-made] articles bearing a trademark identical with one owned" by a United States trademark holder.

* . . . At oral argument, counsel for Lever US stated that Unilever PLC and Unilever N.V. were subject to common control. Thus there appears to be no dispute over the application of 19 C.F.R. § 133.21(c)(2) (1988), especially in light of 19 C.F.R. § 133.2(d), defining common control as "effective control in policy and operations and. . . . is not necessarily synonymous with common ownership.". . .

** The customs forms evidently are not designed to elicit any statement by a domestic trademark owner as to whether foreign affiliates have consented to importation into the US of products purchased from the foreign affiliate. Although we have found no explicit assertion of non-consent by Lever UK in the record, Lever US's theory would seem to collapse if such consent had been given.

*** In *K Mart*, the Supreme Court struck down 19 C.F.R. § 133.21(c)(3) as inconsistent with § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 (1982).

**** Another regulation, 19 C.F.R. § 133.12(d), evidently adopted to facilitate implementation of § 133.21(c)(2), requires that applications to record a trade name with Customs list affiliates using it abroad, and Lever US's 1986 applications did so.

** L'anza's claims against the retailer defendants were settled. The Malta distributor apparently never appeared in this action and a default judgment was entered against it.

******* The comparable section in the 1909 and 1947 Acts provided that "nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1084; *see also* Copyright Act of 1947, ch. 391, § 27, 61 Stat. 660. It is noteworthy that § 109(a) of the 1978 Act does not apply to "any copy"; it applies only to a copy that was "lawfully made under this title."

******** "We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction. There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book." Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 350 (1908).

********* The remainder of § 602(a) reads as follows: "This subsection does not apply to—
"(1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
"(2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

********** Despite L'anza's contention to the contrary, the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act any more than § 602(a)'s "acquired abroad" language does.

********** *See* note 11, *supra*.

********** *See* 17 U.S.C. §§ 106, 107 (1970).

********** Section 602(b) provides in relevant part: "In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited. . . ." The first sale doctrine of § 109(a) does not protect owners of piratical copies, of course, because such copies were not "lawfully made."

********** In its opinion in this case, the Court of Appeals quoted a statement by a representative

of the music industry expressing the need for protection against the importation of stolen motion picture prints: "We've had a similar situation with respect to motion picture prints, which are sent all over the world—legitimate prints made from the authentic negative. These prints get into illicit hands. They're stolen, and there's no contractual relationship. . . . Now those are not piratical copies." Copyright Law Revision Part 2: Discussion and Comments on Report of the Register of Copyrights on General Revision of the U.S. Copyright Law, 88th Cong., 1st Sess., 213 (H.R. Judiciary Comm. Print 1963) (statement of Mr. Sargoy), [cit].

**********A participant in a 1964 panel discussion expressed concern about this particular situation. Copyright Law Revision Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law, 88th Cong., 2d Sess., 119 (H.R. Judiciary Comm. Print 1964) (statement of Mrs. Pilpel) ("For example, if someone were to import a copy of the British edition of an American book and the author had transferred exclusive United States and Canadian rights to an American publisher, would that British edition be in violation so that this would constitute an infringement under this section?"); *see also id.*, at 209 (statement of Mr. Manges) (describing similar situation as "a troublesome problem that confronts U.S. book publishers frequently").

**********The strength of the implication created by the relevant language in § 106A is not diminished by the fact that Congress enacted § 106A more recently than § 602(a), which is part of the Copyright Act of 1976. Section 106A was passed as part of the Visual Artists Rights Act of 1990 in order to protect the moral rights of certain visual artists. Section 106A is analogous to Article 6bis of the Berne Convention for the Protection of Literary and Artistic Works, but its coverage is more limited. *See* 2 P. Goldstein, *Copyright* § 5.12, p. 5:225 (2d ed. 1996) (§ 106A encompasses aspects of the moral rights guaranteed by Article 6*bis* of the Berne Convention, "but effectively gives these rights a narrow subject matter and scope").

**********The § 602(a) exceptions, which are substantially narrower than § 107, would not permit such importation. *See* note 11 *supra*.

**********L'anza's reliance on § 602(a)(3)'s reference to § 108(g)(2), *see* note 11, *supra*, to demonstrate that all of the other limitations set out in §§ 107 through 120—including the first sale and fair use doctrines—do not apply to imported copies is unavailing for the same reasons.

**********_See, e.g._, H.R. Rep. No. 1476, 94th Cong., 2d Sess., 79 (1979) ("Section 109(a) restates and confirms" the first sale doctrine established by prior case law); S.Rep. No. 473, 94th Cong., 1st Sess., 71 (1975) (same).

**********Presumably L'anza, for example, could have avoided the consequences of that competition either (1) by providing advertising support abroad and charging higher prices, or (2) if it was satisfied to leave the promotion of the product in foreign markets to its foreign distributors, to sell its products abroad under a different name.

**********The Solicitor General advises us that such agreements have been made with Cambodia, Trinidad and Tobago, Jamaica, Ecuador, and Sri Lanka.

**********We also note that in 1991, when the first of the five agreements was signed, the Third Circuit had already issued its opinion in Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (1988), adopting a position contrary to that subsequently endorsed by the Executive Branch.

*Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT'L L. 603, 605 (1997)