The Practical Effect of Recent US "Losses" Before the WTO

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Recent "losses" by the United States before the World Trade Organization ("WTO") have revived concerns about the desirability of subjecting domestic intellectual property law to international dispute resolution processes. In relatively short order both US copyright and trademark laws have been found to be in violation of TRIPS obligations. Unless the US changes these laws to conform with findings of the Dispute Settlement Body ("DSB") of the WTO, the European Union will be empowered to impose trade sanctions, including higher tariffs on goods the EU selects for such treatment. Such "losses" become even more notable in light of the fact that, to date, only four decisions have issued from the DSB finding a member country to be in violation of TRIPS. Thus, US "losses" represent 50 % of all written IPR decisions. Worse, the United States is the only country to date to have two separate violation decisions in IPR against it.[2]

The undeniable advances in the required level of international protection for intellectual property contained in the TRIPS Agreement appear to be under their strongest attack since its establishment. The Doha Ministerial in November 2001 has initiated a potential new round of negotiations regarding such contentious issues as special concessions to compulsory licensing and grey market imports of pharmaceuticals, expanded protection for geographic indications, and greater emphasis on affirmative obligations on developed countries to transfer technology to the developing world. Piracy levels remain high internationally despite the express requirement in TRIPS that member countries provide "effective enforcement" of IPR, "including **expeditious** remedies to prevent infringements and remedies which constitute a **deterrent** to further infringement." [3] Recent US "losses" in the Fair Music Licensing[4] and the Havana Club[5] cases have similarly placed the Dispute Settlement Process of the WTO under attack for its questionable efficacy in resolving TRIPS disagreements.

At the time of its signing in 1994, TRIPS represented an undeniable advance in the protection of intellectual property rights internationally. Among its most notable accomplishments were its establishing an affirmative obligation on signatories to actually enforce intellectual property rights,[6] as well as a device for sanctioning failures to meet these obligations.[7] No longer could countries meet their international IPR obligations by establishing laws on the books without also establishing effective mechanisms to enforce such rights. More significantly, failures to meet treaty obligations were no longer subject to the never-used right to seek sanctions before the European Court of Justice.[8] Instead, strengthened procedures for dispute resolution before the WTO finally gave a "sting" to the duty to meet IPR treaty obligations. Despite initial optimism, recent US "losses" raise new concerns about how effective this "sting" may prove to be in practice.

The reality is that the dispute resolution process under the WTO is only effective against those countries with whom a significant trading relationship already exists. If a country has no significant trade with a complaining member, there is no reason for threats to file a complaint before the DSB to deter the challenged practice. Similarly, as demonstrated by the initial reaction of the United States to the "loss" in the Fair Music Licensing case, unless the harm is quantifiable into a significant trade harm, even threats of sanction against a trade partner may not be sufficient to deter the act in question.

THE WTO DISPUTE SETTLEMENT PROCESS

Facially DSU proceedings resemble adversarial proceedings, with the filing by a Member government of a "request for consultations" (complaint) alleging violations by another member of its obligations under TRIPS.[9] If the dispute is not satisfactorily resolved, the unhappy member country may request the establishment of a panel.[10] After such panel is established, briefs are submitted, oral arguments and documentary evidence presented,[11] and eventually a report issued concerning whether a violation has occurred.[12] Rights of appeal[13] as well as penalties in the form of trade sanctions[14] are available. Thus, the process has a strong facial resemblance to traditional litigation models. In fact the summary page which the WTO has on its website regarding DSU procedures even refers to consultation as being encouraged "to settle 'out of court'."[15] In a significant advance over prior GATT resolution procedures, once the DSB issues its decision, no member country can block it through a failure of concurrence.

Despite facial similarity to adversarial proceedings, in practice the focus of the DSU is on mediation and consultation. The issuance of a written final report such as occurred in the Fair Music Licensing and Havana Club cases is, in reality, evidence that the mediation process of DSU has failed. Even the decision to file a request for consultation, to a certain extent, represents a failure of bilateral efforts to mediate the dispute.

DSU proceedings are strictly limited to government-to-government disputes. Private parties have no official role in the process. Bluntly put, unless a private litigant can convince the US government to act, no WTO proceedings will be commenced. Some critics have suggested that the process should be broadened to allow for the initiation of private lawsuits.[16] Yet despite this facially limited role, private parties nevertheless play a significant role in WTO proceedings. At the most fundamental level, private parties, and particularly industry representatives, provide needed information to government officials regarding in-field enforcement and protection. Perhaps even more significantly, such private parties often provide necessary statistical evidence of the impact of the violations on trade, and the monetary harm such violations cause.

The role of private parties may be even more expanded in light of recent pronouncements regarding the separate role private parties may play in supplying evidence to the DSB. In the Fair Music Licensing case, the DSB ultimately accepted into evidence a letter from a law firm representing ASCAP to the United States Trade Representative that was copied to the Panel. It stated that it would not "reject outright the information contained in the letter." It is difficult to determine how effective this "amicus" role will be, or how much weight any such non-governmental submissions will be granted, however, since the Panel found that the information contained in the letter was duplicative. Nevertheless, the door has at least been opened to a more broadened participatory role for non-governmental entities.

Although WTO rules establish a relatively fast track procedure for international dispute resolution, with a final resolution available within one year (without appeal) of the initial filing, in practice such proceedings in the IPR arena are relatively slow moving. Thus, the US and Argentina only recently filed a notification to the WTO settling three years of mediation regarding intellectual property matters.[17] Such settlement, however, did not resolve all issues between the parties. To the contrary, the United States retained the right to seek resolution on outstanding issues between the parties including the alleged failure of Argentina to protect confidential information under Article 29 of TRIPS. Since complaints before the WTO are generally filed only after bilateral efforts have failed, the entire period of debate is considerably extended. Such slow moving processes are in direct contradistinction to the rapid resolution to IPR violations mandated under TRIPS,[18] and further underscore the mediation goals of the DSU.

Early concerns that dispute settlement procedures would be used to "bully" developing countries into compliance with the heightened protection standards of TRIPS have proven inaccurate, at least insofar as actual DSB proceedings are concerned. The majority of the consultations have been the result of disputes between developed countries, including complaints between the US and Canada over patent rights, between the US and Denmark, and the US and Sweden over civil enforcement procedures, and, most significantly for this article, between the United States and the European Union. Indeed, the "losses" which the United States has recently suffered were the result of proceedings initiated by the European Union.

THE FIRST US "LOSS": FAIR MUSIC LICENSING

The first significant US "loss" before the WTO involving intellectual property occurred with the issuance in 2001 of the final decision of the DSB upholding portions of the EU's complaint against the United States in the Fair Music Licensing Case. On its face at issue was Article 9(1) of TRIPS (incorporating substantive requirements of the Berne Convention for the Protection of Literary and Artistic Works), and the alleged failure of Section 110(5) of the US Copyright Act to provide the rights due copyright owners. At the heart of the dispute was the critical issue of the scope of fair use rights granted under Article 13 of TRIPS. Briefly, in 1998 the United States amended Section 110(5) to a royalty-free compulsory license for the public performance of non-dramatic musical works.[19] The beneficiaries of this "business exemption" included food service or drinking establishments and retail establishments which fit within particularized size limitations.[20] The statutory limits were 2,000 gross square feet for retail establishments and 3,750 gross square feet for restaurants.[21] The "home-style" exemption of Section 110(5) provided for, inter alia, free public performance for radio-broadcast music played in retail and food establishments when "home-style" equipment is used.[22]

The European Union basically contended that these exemptions granted an unpaid compulsory performance license. The EU rejected efforts by the US to defend its actions based on principles of fair use. Ultimately, relying on statistical evidence that demonstrated that the business exemption applied to over 70% of potential business licensees of a sound performance license, the DSB found that Section 110(5)(B) – the business exemption – violated US obligations under TRIPS. Ultimately the DSB established a 12 month period in which the US was required to amend its law to bring Section 110(5)(B) into compliance. It was this ultimate decision on the merits which marked the case as a "loss" for US interests. Yet when the opinion is examined more closely, much of the theory of the United States regarding the interpretation of TRIPS was ultimately adopted by the DSB.

Most importantly, the European Union had claimed that the expanded fair use provision of Article 13 was limited solely to the so-called "new rights" established under TRIPS. Article 9 of the Berne Convention, which formed the philosophical and linguistic basis for Article 13 of TRIPS, had limited fair use to "reproduction … in *certain special cases*, providing that such reproduction does not *conflict with a normal exploitation* of the work and *does not unreasonably prejudice* the legitimate interests of the author."[23] Article 13 strongly echoed Article 9 by reproducing in full its tri-partite test, without the limitation to reproduction rights. It stated: "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."[24]

The EU claimed that the failure of Article 13 of TRIPS to limit its tri-partite fair use provision to reproduction rights did *not* expand fair use to pre-existing rights granted under Berne. Since public performance rights at issue were governed by Articles 11(1) and 11bis(1) of Berne,[25] the EU contended that these rights were not available for the expanded fair use of TRIPS. The DSB expressly rejected this position. Instead, it adopted the US view that the grant of fair use rights in Article 13 applies to all the exclusive rights granted a copyright owner. Potentially, this interpretation may permit a broader application of fair use doctrines domestically to support public welfare concerns.

The United States was less successful in convincing the DSB to adopt the factors it considered necessary in making a fair use quantitative analysis. The US claimed that in determining the effect of the exemptions, the DSB must consider the degree of "market displacement" caused. Under this market displacement theory, uses from which an owner would not ordinarily expect to receive compensation should not be considered part of the "normal exploitation" of the work. Although the DSB accepted the need to examine the issue as an empirical, quantitative matter, it accepted the EU view that such quantitative analysis must include an examination of the potential as well as actual effects. The DSB also rejected the US contention that any prejudice caused by the business exemption was minimal because owners received fees from broadcasting stations for the public performance of the work in question. The payment for the initial right to perform the work was considered inapplicable to the issue of economic impact. The DSB adopted an apparently hard line rule that one right cannot be balanced against another, even if the copyright owner has already obtained some compensation for the use in question.

At the same time, however, the DSB treated the three prongs of the fair use test under Article 13 as cumulative in nature. Failure to comply with any one condition is sufficient to disallow the exception. The DSB further narrowed the possibility of a broad application of fair use doctrines by requiring that any exception be “clearly defined” and narrow in scope. Narrowness was held to require that the exception be limited in its field of application or exceptional in its scope. The DSB further decided that a “special case” does not mean “special purpose.” Therefore, simply because an exception has a special public policy purpose by itself is insufficient to bring the practice with Article 13.

The DSB further established that “normal exploitation” under Article 13 must be something less than “full use” of an exclusive right. To determine the scope of such right, the DSB required consideration of “empirical or quantitative aspects” of the right, including an examination of the actual and potential effects” of the exemption. The DSB also required that “unreasonable prejudice” be measured by the “actual and potential effects” on the market. This statistical basis was so important to the DSB that claims by the United States that domestic public policy issues underlay the exemptions were given short shrift. The DSB did not go so far as to say that such public policies were irrelevant, but they plainly found such defenses wanting in the face of overwhelming statistical evidence of the application of Section 110(5) exemptions. Thus, claims that such fair use was justified by a domestic public policy to support small businesses, and to ease the burdens of administering a licensing system were summarily rejected in light of the high percentage of businesses affected.

The period established by the DSB for conformity passed without the introduction of compliant legislation. The parties are currently negotiating possible methods of settlement, including a flat annual payment of the $1,219,900 sanction sought by the EU.

THE SECOND US “LOSS”: HAVANA CLUB

The second decision which the US has “lost” before the WTO has its roots in the Cold War and the Cuban Revolution of the 1950’s. Specifically the European Union challenged Section 211 of the Omnibus Appropriations Act of 1998 which prevents protection of trademarks or trade names “used in connection with a business or assets that were confiscated" by the Cuban Government, absent consent of “original owner.” Basically, under Section 211 US courts are prohibited from “recogniz[ing], enforce[ing] or otherwise validat[ing] any assertion of rights” in a trademark, trade name or commercial name that is “the same as or substantially similar to [one] … used in connection with a business or assets that were confiscated [by the Cuban Government on or after 1 January 1959] unless the original owner … or the bona fide successor in interest has expressly consented.”[26] Cuban Asset Control Regulations (CACR) under the act permit the grant of exception to US nationals to obtain enforcement in limited circumstances.[27] Evidence presented to the DSB indicated that no such exception had ever been granted.

Although Cuba is a member of the WTO, the European Union initiated the consultation largely in reaction to an on-going dispute arising from efforts to protect the Havana Club mark in the US by a European based successor in interest to the Cuban entity that obtained rights to the mark after confiscation of its business assets. The EU contended that Section 211and its related regulations violated, inter alia, TRIPS Articles 2.1 (incorporating substantive provisions of the Paris Convention for the Protection of Industrial Property), and 15.1 (regarding the definition of a protectable trademark), and Article 6quinquies of the Paris Convention (dealing with trademark registration issues). The EU further contended that Section 211violated national treatment and most favored nation obligations under TRIPS.[28] Briefly stated, the EU contended that US refusals to register or protect confiscated foreign marks which had already been registered abroad[29] and which fell within the definition of protectable subject matter,[30] violated US treaty obligations under TRIPS. Such violation was purportedly further exacerbated by the inconsistent procedural requirements and treatment afforded US and foreign nationals since under CACR US nationals could obtain a special license that permitted protection of a confiscated mark as a successor in interest. No foreign national, however, was given an equal right to obtain such special license.

Unlike the Fair Music Licensing Case, the practices that formed the basis for the EU complaint had not been widespread. To the contrary, the only the application of Section 211had been in the *Havana Club* case.[31] That particular case, however, was not included in the EU's request for consultation and was expressly *excluded* by both parties from consideration in the formal case. The DSB agreed that statutes may be challenged on their face and did not require formal inclusion of the Havana Club case as one of the points of reference for the consultation. Nevertheless, the DSB considered the Havana Club decisions as evidence of the operation of Section 211.[32]

Although the DSB ultimately found that Section 211 violated TRIPS and ordered amendment, similar to the Fair Music Licensing Case, the US "loss" demonstrated a strong acceptance by the WTO of the US position regarding interpretation of TRIPS and its incorporated provisions. Most significantly, the DSB did *not* find the refusal to protect confiscated trademarks to qualify as a violation of TRIPS obligations.

Article 15(1) of TRIPS defines a protectable mark as " [a]ny sign or combination of signs capable of distinguishing the goods or services of one undertaking from those of other undertakings."[33] The EU claimed that if a mark fell within the definition of a protectable trademark, then it could only be denied registration on grounds expressly permitted under either TRIPS or the Paris Convention. Neither treaty mentions the right to deny registration based on the allegedly confiscated nature of the mark (or its related business assets). To the contrary, Article 6quinquies of the Paris Convention (the EU contended) required registration of a mark that has been legitimately registered abroad. Under Article 6quinquies "[e]very trademark duly registered in the country shall be accepted for filing and protected as is ("telle quelle") in other countries of the Union" subject to reservations none of which relate to confiscation.[34]

The US rejected the “a fortiori” nature of the registration provisions of TRIPS and the Paris Convention. Instead, the US argued that none of the provisions relied on by the EU *required* registration or protection of a particular mark. Instead, these provisions were directed toward rejections based on the form of the mark. Section 211, however, (the US claimed) was directed to a rejection of protection based on a determination that the party seeking relief was *not* the legitimate trademark owner.

The DSB largely adopted the US position. It held that Section 211 did not violate substantive provisions of TRIPS and the Paris Convention regarding registration and protection of marks. Specifically the DSB recognized that Section 211 deals with a determination of ownership of a mark.[35] It further determined that neither Article 15 of TRIPS, nor Article 6quinquies removed a country’s ability to determine as a matter of law the general conditions for ownership of a mark. Thus, indirectly, the WTO recognized that each country may deny ownership to an otherwise protectable mark as a result of its unauthorized confiscation without violating TRIPS.

One of the most significant “victories” in this US “loss” was the adoption of the DSB of the US position that neither the Paris Convention nor TRIPS established a global on-demand registration system. The DSB expressly rejected any attempt to interpret either the “telle quelle” language of Article 6 quinquies as addressing anything other than rejections based solely on the form of the mark. Countries continue to posses the right to determine both the conditions for filing and registration of marks, as well as the required indicia of ownership.

Although the US was successful in its “substantive’ defense of Section 211 and related CACR regulations, it failed to convince the DSB that Section 211 was not discriminatory in nature. The DSB acknowledged that to date no discriminatory license to a US national successor in interest had been granted. It further acknowledged that where discretionary authority is vested in the executive branch of a TRIPS member, it would not “assume” that such member would fail to implement its obligations under TRIPS. Nevertheless, the facial discrimination in treatment between successors in interest who were US nationals as opposed to foreign nationals was sufficient to violate national treatment and most favored nation obligations.

LESSONS LEARNED TO DATE

Despite the relative paucity of cases, it has become clear that the WTO relies on its own analysis of TRIPS provisions to determine whether the alleged violation has occurred. Although it may consider scholarly articles and international practice, the panels have demonstrated a general reliance on their own close reading of TRIPS and its incorporated treaties, using the Vienna Convention as its analytical framework. Problematically, however, the WTO has also demonstrated a strong, and not wholly unexpected, dedication to its “trade” roots. Thus, for example, its recent decision in the Fair Music Licensing case relied heavily on statistical evidence in order to establish the “normalcy” of the exploitation interest involved. Unfortunately such heavy reliance on statistics calls into question the efficacy of the DSU in resolving any complaint regarding the failure to provide "effective" enforcement for intellectual property rights.

At present, the "losses" discussed in this Article have had little direct impact on US intellectual property owners since none of the laws at issue have been changed. The proffered negotiation of a flat fee payment in the Fair Music Licensing Case is at least some indication that Section 110(5) may not be changed in the near future. By contrast, it appears extremely likely that the special license provision of CACR will most likely be eliminated.

Certainly these recent losses have raised US awareness of the need to consider the potential international impact of domestic intellectual property legislation. They have also raised awareness of the lack of predictability regarding the potential outcome of any dispute that is taken to "completion" before the DSB. Given the strong emphasis by the DSB on statistical evidence, and the lack of agreement on the methodology used to determine whether enforcement methods qualify as "effective" under Article 41, it seems unlikely that any case involving "effective enforcement" (as opposed to lack of required procedural minimums) will be initiated in the near future.

Perhaps the most significant impact of these losses is the impact of the use of the DSU to resolve disputes between countries. Recent events have seen a number of consultations end short of panel establishment. The trend will undoubtedly continue. Such trend, however, should not be seen as yet another "loss." To the contrary, while WTO dispute settlement processes provide a relatively rule ordered methodology for resolving international disputes, these processes were never intended to create in the DSB the equivalent of an international judicial tribunal. Yet the ultimate effectiveness of the DSU in securing compliance with TRIPS obligations will depend on the willingness of parties to submit to initiate consultation. Such willingness may depend on a factor that cannot yet be measured – the ability of the DSB to reach reasoned decisions that member countries accept as binding.

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1 Professor, The John Marshall Law School. This article is based on a video presentation by Professor Long at the 42nd Annual Conference on IPR Developments on February 28, 2002.

2 I am not including separate violation decisions that issue as a result of simultaneous complaints filed by different members, but based on the same claims of treaty violation, such as occurred in the first issued IPR decision against India for its failure to provide adequate pipeline protection for pharmaceuticals.

3 Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Art. 41(1).

4 *United States – Section 110(5) of the US Copyright Act*, DS/160/R at www.wto.org/english/tratop_e/dispu_e/Distab_e.htm.

5 *United States – Section 211 Omnibus Appropriations Act of 1998*, DS/176/R at www.wto.org/english/tratop_e/dispu_e/distab_e.htm.

6 TRIPS, Arts. 41 to 61. These articles impose an affirmative obligation on member countries to create an effective multi-tiered enforcement system consisting of civil, border and criminal enforcement methods for protecting intellectual property rights.

7 The WTO Understanding on Rules and Procedures Governing the Settlement of Disputes ("DSU") applies to disputes under TRIPS pursuant to Article 64. TRIP, Art. 64. The DSU provides for compensation and suspension of concessions in the event the recommendations of the DSB are not implemented within a reasonable period of time. DSU, *reprinted in* Doris Estelle Long & Anthony

D'Amato, 2000 DOCUMENTS SUPPLEMENT TO A COURSEBOOK ON INTERNATIONAL INTELLECTUAL PROPERTY, Art. 22.

8 Although potentially signatories could initiate an action before the International Court of Justice to enforce treaty obligations, no country to date has ever initiated such an action. *See* Doris Estelle Long, *Copyright and the Uruguay Round Agreements: A New Era of Protection or an Illusory Promise?*, 22 AIPLA Quarterly Journal 531 (1995).

9 DSU, Art. 4.

10 DSU, Art. 6.

11 DSU, Art. 13.

12 DSU, Arts. 15 & 16.

13 DSU, Art. 17.

14 DSU, Art. 22

15 Settling Disputes, The Panel Process, www. wto.org/English/thewto._e/whatis_e/tif_e/disp2_e.htm.

16 *See, e.g.*, Gail E. Evans, LAWMAKING UNDER THE TRADE CONSTITUTION: A STUDY IN LEGISLATING BY THE WORLD TRADE ORGANIZATION, Chap. 7.4 (Kluwer Law International 2000).

17 *USTR and Argentine Negotiators Resolve Long-Standing Intellectual Property Rights Issues*, USTR Press Release (April 19, 2002) at www.ustr.gov/releases/2002/04/02-44.htm .

18 TRIPS requires expeditious remedies for infringement including requiring Member Countries to provide ex parte injunctions and seizures in civil infringement actions. *See* TRIPS, Arts. 41 & 50.

19 *See, e.g.*, 17 USC §110(5).

20 17 USC §110(5)(B).

21 *Id.* at 110(5)(B)(i).

22 *Id*. at 110(5)(A).

23 Berne Convention for the Protection of Literary and Artistic Works (Berne), Art. 9(1)(emphasis added).

24 TRIPS, Art. 13 (emphasis added).

25 Article 11(1) of Berne grants authors exclusive rights to authorize the public performance of their works. Article 11bis(1) grants them the right to broadcast and communicate the work to the public. Berne, Arts. 11(1) & 11bis (1).

26 Omnibus Appropriations Act of 1998, Section 211(a)(1).

27 31 CFR §§ 515.305 et seq.

28 TRIPS, Arts. 3 & 4, respectively.

29 The EU's contention was based on the absence of any specified basis for denying registration under with TRIPS or applicable Paris Convention provisions due to the confiscated nature of the mark or its associated business assets. *See, e.g.*, TRIPS, Art. 15(2)(recognizing that denial of registration cannot derogate from the provisions of the Paris Convention); Paris Convention, Arts. 6ter & 6quinquies (setting out the bases for denying registration; none of which expressly mention the confiscated nature of the mark).

30 See TRIPS, Art. 15(1).

31 *See Havana Club Holdings SA v. Galleon SA*, 202 F.2d 116 (2d Cir. 2000) and its related decisions.

32 Interestingly, the DSB considered only the District Court and Appellate Court decisions in the *Havana Club* case that had issued post-Section 211. *See Havana Club Holding SA v. Galleon SA, supra* and *Havana Club Holding v. Galleon, SA*, 961 F. Supp. 498 (SDNY 1997).

33 TRIPS, Art. 15(1).

34 Paris Convention, Art. 6quinquies A (1).

35 The DSB expressly rejected the EU's argument that laws dealing with ownership (as opposed to registration) issues must *establish* ownership, stating: "A measure need not deal exhaustively with a particular subject in order to be considered as a measure dealing with that subject."