

Y2K TRIPS STYLE

Doris Estelle Long*

2 John Marshall Center for Intellectual Property Law News Source 12 (Winter 2000)

Under Article 65 of the Agreement on Trade Related Aspect of Intellectual Property Rights (TRIPS), developing countries who are members of the World Trade Organization (WTO) have until January 1, 2000 to bring their intellectual property enforcement efforts into compliance or face trade sanctions under the WTO Dispute Settlement Mechanism. (Least developed countries are given an additional 5 years for their compliance deadline under Article 66). This “Y2K” problem has resulted in a flurry of year end activity that can only present a new round of challenges for intellectual property owners in the New Millennium.

The TRIPS Revolution

TRIPS has undeniably revolutionized the international protection of intellectual property rights. Whether or not its effects are ultimately viewed as positive (global piracy rates in developing countries remain staggering), TRIPS has established new standards for international recognition, protection and enforcement that have already altered the scope and course of international discourse. Built on the foundations of the WIPO-administered Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property (Articles 9 and 2, respectively, incorporate the major substantive provisions of these conventions),¹ TRIPS has served to fill the gaps in these treaties by providing *for the first time* internationally accepted definitions for patents, trademarks and trade secrets. It has also clarified problematic language in these earlier treaties regarding the scope of rights to be granted foreign IP owners. Thus, in Article 27 TRIPS requires that patents be granted “in all fields of technology” and limits substantive requirements for patentability to three: novelty, inventive step (non-obviousness) and industrial application (utility).

Similarly, in Article 16 TRIPS requires that notoriety decisions for marks claiming protection under Article 6bis of the Paris Convention on the basis of fame include consideration of “the knowledge of the trademark in the relevant sector to the public including knowledge ... which has been obtained as a result of the promotion of the trademark.” TRIPS has also restricted the basis on which compulsory (obligatory) licenses of patented inventions may be required and has eliminated local “working requirements” for the continued protection of a patented invention (Articles 31 and 27, respectively).² TRIPS has further specified that computer programs must (at least) be

* Professor Long is an Associate Professor at The John Marshall Law School. Over the past year she has served as an Intellectual Property Expert for the US State Department/USIS and has advised numerous governmental organizations in various developing countries on TRIPS compliance and enforcement standards.

protected under copyright thus eliminating burdensome registration requirements for sui generis forms.³

Representing the accord of over 135 nations, at last count, TRIPS contains the most complete statement of minimum substantive protection standards for intellectual property protection in the 20th Century. Although the document is not without its flaws (its failure to address international exhaustion, its lack of guidance on infringement standards and its broad treatment of remedial measures represent only a few of the most problematic areas), there can be little doubt that its presence has led both developed and developing nations to engage in renewed dialogues on the minimum level of protection that must be afforded IP-protected goods and services.

Perhaps the greatest advance in international intellectual property protection that TRIPS represents is as an arbiter for actual *enforcement* of intellectual property rights. While the Berne and Paris Conventions also established minimum protection standards for IP owners, both lacked particular articles specifically addressing the international obligation of a country to exercise reasonable efforts to enforce whatever rights its domestic laws might grant an IP owner. Most significantly, they also failed to contain viable sanctioning methods for penalizing signatories who failed to meet their treaty obligations. Thus, obligations under earlier IP conventions were more exhortatory than obligatory.

With the establishment of TRIPS under WTO auspices, these problems have been largely alleviated.⁴ TRIPS requires signatory countries to enforce the minimum standards established under the treaty. In Articles 41 to 63 it imposes adoption of a Rule of Law based system that requires *as a treaty obligation* the sanctioning of infringing conduct in a meaningful manner. Failure to comply with these minimum enforcement standards can result in the imposition of trade sanctions under the WTO Dispute Settlement Mechanism. These sanctions include fines and loss of most-favored nation (MFN) status for the goods of the infringing country. Because of the specter of trade sanctions, many developing countries are scrambling to meet TRIPS requirements. The scenery left in the wake of this last minute crunch for compliance, much like the results of a final exam after an all-night cram session, remains uncertain.

The Y2K Defense

As a first reaction to the January 2000 deadline, several developing countries filed proposals to extend the filing deadline. The initial reaction of many developing countries, including the United States is to oppose any such automatic extension. The issue remained unresolved after the Seattle Ministerial Conference. The practical effect of reviewing so many countries' laws for compliance may well be to grant a *de facto* extension – at least for those countries that make a good faith effort to enact some type of TRIPS-compliant legislation. Those who enact no such legislation, or wholly inadequate legislation; however, will no doubt remain at their peril.

Developing countries who are working to enact TRIPS-compliant legislation have taken seriously the recognition in Article 8 of TRIPS that they may adopt measures “necessary

to protect public health and nutrition, and to promote ... technological developments” so long as such measures are consistent with their treaty obligations under TRIPS. This governing principle has been cited to allow developing countries to balance national interests (including the desire for greater technology transfer) against the protection requirements of TRIPS. Such reliance has led to notable efforts to craft exceptions to IP protection where such protection is in contradistinction to technology transfer goals.

Although it is impossible to predict the shape of the world past January 1, 2000 with certainty, there appear to be several areas where such “limitations” are certain to provoke heated debate in the future. While the ultimate outcome of such debates is unknowable, the issues beneath are not. I believe an examination of some of the more problematic issues can help U.S. intellectual property owners prepare now for what are certain to be interesting challenges in the future.

Parallel Importation and International Exhaustion

An IP owner has “exhausted” her rights, when she has placed her product on the market, thereby receiving the expected compensation for the exploitation of her intellectual property. In essence, once a product has been sold with the IP owner’s permission, she loses all right to exert any further control over its future distribution. While exhaustion can occur either nationally (such as under the first sale doctrine of U.S. copyright law) or internationally, for purposes of TRIPS, I believe the doctrine of international exhaustion presents the greatest potential for disputes. Under this doctrine, once a product is placed on the market in Country A with the IP owner’s permission, any subsequently purchased product can be re-sold, rented or (most significantly) exported for sale in Country B, *without the IP owner’s permission*.

Probably the most significant example of a type of international exhaustion is the “free movement of goods” right under the Treaty of Rome, which established the European Union. Under this doctrine, IP protected goods lawfully placed on the market in one country of the European Union generally may be imported into any other member country without the IP owner’s permission. Even the European Union, however, has not adopted complete international exhaustion, limiting its application to goods placed on sale in the Europe Union.⁵

Article 6 of TRIPS expressly provides that “for purposes of dispute settlement ... nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.” Thus, on its face TRIPS does not address the scope of “permissible” international exhaustion. Nevertheless, Article 28 of TRIPS requires that patent owners be granted the exclusive right to prevent others from importing patented products or products directly produced from a patented process. Although this Article contains a footnote stating that this right to preclude imports “is subject to the provisions of Article 6,” I find it hard to believe that Article 6 permits the complete elimination of the importation right granted under Article 28. First, on its face, Article 6 merely removes disputes over exhaustion from dispute settlement. It does not say that parallel imports (goods legally manufactured in another country) must be allowed in all cases (under the

theory that what is not prohibited, must be permitted). Second, the right to prohibit imports which must be granted to a patent owner under Article 27 must have some impact on the ability to prevent unauthorized importation of patented goods or the phrase becomes virtually meaningless.

Beyond the issue of the extent to which a patented product can be imported without the patent owner's permission in accordance with Article 27, the issue of the parallel imports has raised another thorny problem under TRIPS – what is the meaning of “exhaustion” under Article 6? While “international exhaustion” has generally applied when the product to be imported was placed on the market with the patent owner's permission, there is a movement among certain developing countries to expand this exhaustion “right” to all products legally placed on a market, regardless of the patent owner's lack of control over such placement. Under this definition, products produced under a compulsory license in one country, or worse, products produced in a country that does not give patent protection to the invention in question, could be imported without violating TRIPS. Thus, for example, products produced in Country A, which does not grant patent protection to pharmaceuticals, could be imported in Country B, in which a valid patent exists, because (the theory goes), they are simply parallel imports. This expansion of the “exhaustion” doctrine is certain to provoke heated debates in the future over the meaning of Articles 6 and 27.

Compulsory Licenses

The right to grant compulsory licenses has long been recognized, in multinational IP treaties. Both the Berne Convention (dealing with copyright) and the Paris Convention (dealing with patents) recognized that intellectual property owners could in certain situations, be forced to permit others to use their work or invention. TRIPS similarly recognizes the right of compulsory licensing for patents (Article 31) and copyrights (Article 13) (trademarks may *not* be licensed on a compulsory basis under Article 21). However, it places fairly stringent limitations on the grant of such licenses, particularly for patents, requiring *inter alia* prior unsuccessful negotiation with the patent owner to obtain a license on commercially reasonable terms, limited bases for granting such licenses (among those expressly permitted under TRIPS are for national emergencies, to correct anti-competitive practices, and for non-commercial governmental uses) and the duty to provide “adequate remuneration” to the patent owner for such “licensed” use, except in certain cases of anti-competitive conduct. Furthermore, failure to work a patent domestically does not qualify as an accepted basis for automatically granting a compulsory license.

Despite these facial limitations, many countries, used to the broader rights granted under Article 5 of the Paris Convention (which allowed compulsory licenses for a failure to work the patent locally) and seeking to give force to the perceived technology-transfer principles of Article 8 of TRIPS, are seeking to broaden the ability of third parties to obtain compulsory licenses. Some contemplate granting a compulsory license after a period of unsuccessful negotiations as short as 180 days. Others suggest granting a compulsory license any time the patent owner is presently unable to fulfill local demand

for the product regardless of the reasons for such failure or the type of product involved. The duration of any such licenses, and the bases on which the patent owner can have such licenses terminated remain subject to diverse interpretations.

Pricing and the All-Purpose Anti-Competitive Conduct License

Article 31 of TRIPS expressly provides that compulsory licenses may be granted to correct the “anti-competitive conduct” of the patent owner. Like much of TRIPS, it fails to define what kind of conduct falls within the definition of “anti-competitive.” Does the failure to sell a product at the same low price as a pirate or parallel importer qualify as anti-competitive? Does the failure to sell a product at the same low price as in another country qualify? What if the product is priced at a level that prohibits purchase by a large percentage of the local population? Is that anticompetitive conduct?

Although some of these examples seem somewhat far-fetched, all have been proposed as a basis for compulsory licenses in a developing country. Particularly in areas of public health and safety, and technological development, the price of patented or copyright protected goods has raised heated debates over the potentially harmful impact current licensing and sales practices for IP-protected products have on developing countries. With regard to goods such as patented medicines or copyrighted computer programs, there are increasing discussions at the governmental level of methods for regulating the price of such goods to permit more widespread availability to local consumers.

Given the public-interest nature of such goods, some developing countries are developing legislation that will allow them to use the threat of compulsory licenses under anti-competitive theories to alter the dynamics of current distribution systems. Whether such efforts will succeed, or more importantly, violate TRIPS, remains to be seen.

The Scope of Patentable Inventions

Article 2 of TRIPS plainly states that patent protection must be extended to all inventions “in any field of technology”. It further provides that only three substantive requirements may be imposed in determining patentability – novelty, inventiveness (non-obviousness) and industrial application (utility). Exceptions to such patentability are narrowly circumscribed. (They include to protect ordre public, to protect human, animal or plant life or health and to avoid serious prejudice to the environment [among others]). (Article 27).

Despite the clear intent of TRIPS to broaden the scope of inventions patentable under domestic law, numerous developing countries are considering additional exceptions to patentability, including inventions which are based on new uses for previously patented inventions and new combinations of previously existing materials. These denials of patentability are not based on a lack of novelty or non-obviousness – both grounds of which are permissible under TRIPS – but on a blanket exclusion of any basis for patentability of such “derivative” inventions. Such narrow constructions of the term “invention” under TRIPS are bound to provoke heated debates in the future.

Post-TRIPS

It is impossible to cover all of the potential post-TRIPS problems intellectual property owners may face in the new millennium as a result of this last minute scramble for compliance. I have merely tried to highlight some of the more problematic substantive aspects I have noticed in the debates and discussions leading up to this TRIPS Y2K deadline (This article doesn't even cover enforcement – which, while no less important, would require reams of paper to discuss.).

If anyone expected the ambiguous language of TRIPS to lead to equal, or even harmonized, protection for intellectual property rights on a global basis, the end-result of the Y2K rush to compliance, I fear, will demonstrate that they were sadly mistaken. The outlook is not wholly bleak, however. TRIPS, I believe, will lead to a level of harmonization (at least of laws, if not immediately of application) previously unseen in the global community. With no real guidance yet from the WTO on how TRIPS obligations are to be interpreted, however, it will take years before the debates over the scope of rights required to be granted (or more importantly the acceptable *limitations* on those rights represented by the issues discussed in this article) are clarified. Unlike the Y2K “bug”, January 1st won't give us an immediate view of the TRIPS compliance “problem”. The period after January 1, however, does promise to continue an unprecedented level of international discourse over the protection of intellectual property that can only bode well for all IP owners in the future.

On May 4-5, 2000, the John Marshall Law School will sponsor a conference on INTELLECTUAL PROPERTY IN A POST-TRIPS WORLD. The conference will cover the compliance issues discussed in this article, as well as such critical post-TRIPS issues as database protection, cultural patrimony, Internet enforcement and biogenetics. For more information or to register, please contact Gary Watson at 312/427-2737 x574.

¹ The only exception to the general incorporation of substantive rights required under these treaties is the protection of moral rights required under Article 6bis of the Berne Convention. This substantive article was expressly omitted from TRIPS. (Article 9.) It should be noted, however, that incorporation does *not* mean identical treatment given the different orientation of the treaties in question. TRIPS, unlike the Berne and Paris Conventions, is at its heart a trade treaty, based on the principles of free trade envisioned by the founding documents of GATT and the WTO.

² Under Article 27, patent owners must be granted the right to exploit their patent domestically by importation as opposed to local production, if they so desire.

³ Under Article 5 of the Berne Convention, no formality, including registration, can be required for protection of works by foreign nationals. As a literary work, computer programs become subject to the same restrictions on formalities.

⁴ Admittedly, the viability of such sanctions remains problematic since only two panel decisions involving intellectual property disputes have issued from the WTO as of the date of this Article. Both of these in essence dealt with the same topic, the treatment of pharmaceutical patents by India. Nevertheless, I believe the mere fact that so many countries take seriously the threat of such sanctions demonstrates the power of this mechanism in helping assure compliance with agreed-upon standards.

⁵ See, e.g., *Silhouette International Schmied GmbH & Co., v. Hartlauer Handelsgesellschaft GmbH*, 1998 ECJ Celex Lexis 3682 (Court of Justice of the European Communities 1998).