

18: Patents: Non-Discrimination

Article 27.1 Patentable Subject Matter

... 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.

1. Introduction: terminology, definition and scope

The requirement that patent rights shall be available and enjoyable without discrimination as to the field of technology follows from the general rule of patentability contained in the first sentence of Article 27.1.⁵⁸¹ This second sentence, however, adds an important element: while patents need to be recognized in all fields of technology (subject only to permissible exceptions as discussed in Chapters 19–21 below), the law cannot discriminate in its treatment of different fields, both in terms of availability of rights and of capacity to enjoy them. For instance, patents may not last differently depending on the field of technology involved, nor can they be subject to more stringent conditions (e.g., with regard to the acquisition of rights) in certain fields than in others. This rule may be deemed to include both positive (i.e., superior rights) and negative (i.e., inferior rights) discrimination. This rule, however, is not absolute, as discussed below (Section 3).

A provision which sought to limit the grant and enjoyment of patent rights to inventions made within a particular Member would clearly be contrary to this provision. It would also be contrary to this provision to have a requirement under which evidence of inventive acts were restricted to the territory of a particular country, and foreign applicants were not permitted to prove a date of invention which antedated their filing date in that particular country.⁵⁸²

It should be noted that there is no comparable non-discrimination clause in other sections of TRIPS, and that the obligation under Article 27.1 is limited only to discrimination based on the three elements indicated in the provision, that

⁵⁸¹ See Chapter 17.

⁵⁸² See discussion in Sections 2.1 and 6 below.

2. History of the provision

369

is, place of the invention, field of technology, and local production/importation. Discrimination based on other factors is not banned.⁵⁸³

2. History of the provision

2.1 Situation pre-TRIPS

Neither the Paris Convention nor national laws contained a provision comparable to Article 27.1. Hence, discrimination now banned was permissible, such as establishing different terms of patent protection according to the field of technology, as provided for under some domestic patent law.⁵⁸⁴

The principle that patents shall be available, and patent rights enjoyable without discrimination as to the place of invention had generally been accepted under the European Patent Convention. However, in some countries, differential treatment was granted to patents depending on the country of invention. That was the case, for instance, under the Canadian regulation on compulsory licences introduced in 1988 and in force until Bill C-91 was passed in February 1993.⁵⁸⁵ The United States – the single country to maintain a “first-to-invent” rule concerning entitlement to a patent⁵⁸⁶ – imposed a discriminatory burden on foreign inventors under §104 of the U.S. Patents Act. Evidence of inventive acts was restricted to the territory of the USA. Consequently, evidence by foreign applicants that the date of invention antedated their U.S. filing date was inadmissible if it were based solely on knowledge, use or other activity in a country other than the USA. This territorial limitation was later extended to Canada and Mexico under the North American Free Trade Area Treaty, and subsequently to WTO Member countries.

Similarly, national laws could treat patents differently depending on the local or imported origin of the product. Thus, Section 337 of the U.S. Tariff Act accorded to imported products challenged as infringing U.S. patents treatment less favourable than the treatment accorded to similarly challenged products of U.S. origin. This Section was found inconsistent with the GATT in *United States – Section 337 of the Tariff Act of 1930*.⁵⁸⁷

It has been a common feature in patent laws (of developed and developing countries) to provide for compulsory licences in cases of “non-working” (in conformity with Article 5.A (4) of the Paris Convention), and to interpret that working was only satisfied by local production (not by importation). Some commentators

⁵⁸³ As to the difference between the general rules of non-discrimination contained in Articles 3 (national treatment) and 4 (most-favoured-nation treatment) and the patent-specific non-discrimination rule in Article 27.1, see Section 5 of this chapter, below.

⁵⁸⁴ On the term of patent protection, Article 33, see Chapter 22.

⁵⁸⁵ For details, see UNCTAD-ICTSD, Jerome H. Reichman and Catherine Hasenzahl (2002), *Non-Voluntary Licensing of Patented Inventions : The Canadian Experience*. Intellectual Property Rights & Sustainable Development Series, November 2002 [hereinafter Reichman, Hasenzahl, The Canadian Experience], available at <<http://www.iprsonline.org/unctadictsd/docs/reichman-hasenzahl.Canada.pdf>>.

⁵⁸⁶ The rule applied in the USA is said to be in conformity with Article 1(8) of the U.S. Constitution which provides that Congress has power ‘to promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their . . . discoveries.’ It is also thought by many to be fair, because the patent is granted to the first inventor, and not to the first to apply.

⁵⁸⁷ See L/6439-365-345 (1989 GATT TPD LEXIS 2).

have interpreted Article 27.1 as a ban to such differentiation but, as discussed in Chapter 25 below, such interpretation is controversial.

2.2 Negotiating history

2.2.1 The Anell Draft

The Anell Draft contained no provision comparable with the current non-discrimination clause in Article 27.1.

2.2.2 The Brussels Draft

“Patents shall be available without discrimination as to where the inventions were made.”

Thus, the Brussels Draft did include a non-discrimination clause with respect to patented inventions. However, this clause covered only part of the final provision under Article 27.1. The draft referred only to non-discrimination as to the place of invention, but did not expressly prohibit discrimination as to the field of technology and as to the place where the protected product is produced. The latter has to be distinguished from the place of invention, which may not be the same as the place of production.

3. Possible interpretations

Under Article 27.1 Members are obliged to make available patents, that is to ensure the right to obtain a patent, irrespective of the place of invention, the field of technology, or whether products are imported or locally produced. Availability does not mean, however, that a patent needs to be granted in all circumstances, since this will depend on the applicant’s ability to meet the patentability requirements and other conditions (such as appropriate disclosure).

An important element for the interpretation of this provision is the concept of “patent rights”. While defining in Article 28 the patentee’s rights as exclusive, the Agreement makes clear that patents confer a *negative* right, that is, the legal faculty to prevent others from doing certain acts relating to the invention, and not a *positive* right with regard to his/her own products or processes. Thus, the fact that a patent has been granted on a medicine does not give the patent owner the right to sell it, unless health regulations have been complied with, but he can, immediately after the patent grant, prevent others from using the invention.⁵⁸⁸

To “discriminate” means “be, set up, or act on the basis of, a difference . . . make a distinction, especially unjustly on grounds of race or colour or sex”.⁵⁸⁹

In the *EC-Canada* case,⁵⁹⁰ the panel made a distinction between “discrimination” and “differentiation”. It clarified that the conduct prohibited by Article 27.1 is “discrimination” as to the field of technology; that “discrimination” is not the same as “differentiation”; and, that WTO Members can adopt different rules for

⁵⁸⁸ See also Chapter 22.

⁵⁸⁹ The Concise Oxford Dictionary, p. 274.

⁵⁹⁰ *Canada – Patent Protection for Pharmaceutical Products [EC – Canada]*, WT/DS 114/R.

4. WTO jurisprudence

371

particular product areas, provided that the differences are adopted for *bona fide* purposes (see Section 4 below).

Finally, Article 27.1 prohibits discrimination based on whether the invention is locally produced or imported.⁵⁹¹

4. WTO jurisprudence

4.1 EC – Canada

On 19 December 1997, the European Communities and their Member states requested consultations with Canada under the DSU for the latter's alleged violation of, *inter alia*, Article 27.1. The EC contended, *inter alia*, that under Canadian law, patent rights were not enjoyable without discrimination as to the field of technology within the meaning of Article 27.1, second sentence. The panel, however, did not find a violation of Article 27.1, since the challenged provision of the Canadian law (Section 55.2(1)) was not limited to pharmaceutical products, but was applicable to every product that was subject to marketing approval requirements.⁵⁹² Though the panel based part of its findings on Article 27.1, it refused to provide a general definition of what "discrimination" meant. It argued that

"In considering how to address these conflicting claims of discrimination, the Panel recalled that various claims of discrimination, *de jure* and *de facto*, have been the subject of legal rulings under GATT or the WTO.⁵⁹³ These rulings have addressed the question whether measures were in conflict with various GATT or WTO provisions prohibiting variously defined forms of discrimination. As the Appellate Body has repeatedly made clear, each of these rulings has necessarily been based on the precise legal text in issue, so that it is not possible to treat them as applications of a general concept of discrimination. Given the very broad range of issues that might be involved in defining the word "discrimination" in Article 27.1 of the TRIPS Agreement, the Panel decided that it would be better to defer attempting to define that term at the outset, but instead to determine which issues were raised by the record before the Panel, and to define the concept of discrimination to the extent necessary to resolve those issues".⁵⁹⁴

The panel also considered the applicability of the non-discrimination clause to the exceptions regulated in Article 30 of TRIPS. It held that

"Article 27.1 prohibits discrimination as to enjoyment of "patent rights" without qualifying that term. Article 30 exceptions are explicitly described as "exceptions to the exclusive rights conferred by a patent" and contain no indication that any

⁵⁹¹ For the possible implications of this provision on the issuance of compulsory licenses, see Chapter 25.

⁵⁹² *Canada – Patent Protection for Pharmaceutical Products [EC – Canada]*, WT/DS 114/R, at para. 7.99.

⁵⁹³ See, e.g., *Japan – Taxes on Alcoholic Beverages*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R (adopted 1 November 1996); *European Communities – Regime for the Importation, Sale and Distribution of Bananas*, WT/DS27/AB/R (adopted 17 November 1997); *EC Measures Concerning Meat and Meat Products (Hormones)*, WT/DS26/AB/R, WT/DS48/AB/R (adopted 15 February 1998); *United States – Import Prohibition of Certain Shrimp and Shrimp Products*, WT/DS58/AB/R (adopted 6 November 1998).

⁵⁹⁴ See *EC – Canada*, para. 7.98.

exemption from non-discrimination rules is intended. A discriminatory exception that takes away enjoyment of a patent right is discrimination as much as is discrimination in the basic rights themselves. The acknowledged fact that the Article 31 exception for compulsory licences and government use is understood to be subject to the non-discrimination rule of Article 27.1, without the need for any textual provision so providing, further strengthens the case for treating the non-discrimination rules as applicable to Article 30" (para. 7.91).

The panel added that limiting an exception to a particular field of technology does not make it acceptable under the condition of "limited exception" imposed by Article 30. The panel argued that

"...it is not true that being able to discriminate against particular patents will make it possible to meet Article 30's requirement that the exception be "limited". An Article 30 exception cannot be made "limited" by limiting it to one field of technology, because the effects of each exception must be found to be "limited" when measured against each affected patent. Beyond that, it is not true that Article 27 requires all Article 30 exceptions to be applied to all products. Article 27 prohibits only discrimination as to the place of invention, the field of technology, and whether products are imported or produced locally. Article 27 does not prohibit bona fide exceptions to deal with problems that may exist only in certain product areas. Moreover, to the extent the prohibition of discrimination does limit the ability to target certain products in dealing with certain of the important national policies referred to in Articles 7 and 8.1, that fact may well constitute a deliberate limitation rather than a frustration of purpose. It is quite plausible, as the EC argued, that the TRIPS Agreement would want to require governments to apply exceptions in a non-discriminatory manner, in order to ensure that governments do not succumb to domestic pressures to limit exceptions to areas where right holders tend to be foreign producers." (para. 7.92)

4.2 United States – Brazil

In January 2001, the United States launched a challenge against Brazilian legislation that authorizes the granting of compulsory licences and parallel imports in instances when patents are not locally worked.⁵⁹⁵ The dispute, however, ended several months later, when the U.S. complaint was withdrawn.⁵⁹⁶ In a separate case Brazil asked the United States for consultations with regard to provisions of U.S. law limiting the right to use or sell any federally owned invention only to a licensee that agrees that any products embodying the invention or produced through the use of the invention will be manufactured substantially in the United States.⁵⁹⁷

⁵⁹⁵ See *Brazil – Measures Affecting Patent Protection [United States – Brazil]*, Request for the Establishment of a Panel by the United States, January 9, 2001, WT/DS199/3. On February 1, 2001, the DSB established a panel, however, no panel members were appointed. Cuba, the Dominican Republic, Honduras, India and Japan reserved third party rights. See also Chapter 25 (Section 4 on WTO jurisprudence).

⁵⁹⁶ Without prejudice to their respective positions, the United States and Brazil have agreed to enter into bilateral discussions before Brazil makes use of Article 68 against a U.S. patent holder. *Brazil – Measures Affecting Patent Protection*, Notification of Mutually Agreed Solution WT/DS199/4, G/L/454, IP/D/23/Add.1, July 19, 2001. See also Joint U.S.-Brazil Statement, June 25, 2001.

⁵⁹⁷ See WT/DS224/1, February 7, 2001. This case was not pursued.

6. New developments

373

5. Relationship with other international instruments

As mentioned above, the Paris Convention expressly authorizes, on certain conditions, compulsory licensing for the failure to work patents locally. TRIPS does not contain such a clear and express authorization. The Agreement, as opposed to the Paris Convention, applies the principle of non-discrimination on a higher, more uniform level. While both agreements contain the national treatment principle,⁵⁹⁸ the Paris Convention does not oblige Member countries to prohibit, in their domestic legislation, the discrimination of patents as to the place of invention, the field of technology or whether products are imported or locally produced. As long as these sorts of discrimination are applied to both nationals and foreigners, the general principle of national treatment is respected. Here, TRIPS goes one step further: not only must Members ensure equal treatment of nationals and foreigners, but on top of that, they have to comply with certain minimum standards, prohibiting, in general, the above discriminations.

In this context, it should be noted that where two countries are parties to the Paris Convention, but only one is a WTO Member, TRIPS does not create any obligations.⁵⁹⁹ It only applies (and thus, as the later treaty, supersedes the Paris Convention), where both (or all) countries are WTO Members.⁶⁰⁰

6. New developments

The non-discrimination clause provides for a principle that is not stated, as such, in national laws, but that should be respected while establishing the rights and obligations of patent owners. The adoption of such a clause forced Canada to eliminate differential treatment for inventions made in the country with regard to compulsory licences. It also underpinned the amendment to the above-mentioned Section 104 of the U.S. Patent law, which was revised in order to extend the right to establish priority with respect to an invention not only in NAFTA countries, but in any WTO Member.⁶⁰¹

However, the main impact of the non-discrimination clause has probably been in the area of compulsory licensing. Though debatable, the interpretation of the last sentence of Article 27.1 in the sense that working of a patent can be satisfied by importation for the purposes of compulsory licences, is likely to have led many countries to consider importation as equivalent to local production for the purposes of working an invention. An important exception is Article 68 of the

⁵⁹⁸ See Article 3 of the TRIPS Agreement, Articles 2 and 3, Paris Convention.

⁵⁹⁹ See Article 30.4(b), Vienna Convention.

⁶⁰⁰ See Article 30.4(a) in conjunction with Article 30.3, Vienna Convention. For more details on the interplay between the Paris Convention and the TRIPS Agreement in that case, see Chapter 3.

⁶⁰¹ The U.S. Patents Act currently provides the following –

§104 Inventions made abroad

(a) In General

(1) Proceedings

In proceedings in the Patent and Trademark Office, in the courts, and before any other competent authority, an applicant for a patent, or a patentee, may not establish a date of invention by reference to the knowledge or use thereof, or other activity with respect thereto, in a foreign country other than a NAFTA country or a WTO member country, except as provided in §§119 and 365 of this title.

Brazilian patent law, as amended in 1996 which, as noted above, was challenged by the USA. Also, the Indonesian patent law, as revised in 2001, provides that the patent holder is obliged to make the patented products or use the patented process in Indonesia. He can be exempted from this obligation if the making of the product or the use of the process is only suitable to be implemented on a regional scale (Article 17).

7. Comments, including economic and social implications

The non-discrimination rule contained in Article 27.1 is intended to protect right-holders against arbitrary policies that undermine their rights, when such policies are adopted on grounds of the field of technology, the place of invention or the origin (locally manufactured or imported) of the products.

The need to differentiate the rights according to the types of inventions concerned has been extensively debated. Many have wondered why patent rights of equal effect and duration should be granted to inventors who have made different contributions, some of them significant and others less so.⁶⁰² Debates have largely focused on the duration of patent rights, since the rate of obsolescence of technology and the periods necessary to recover R&D investments significantly vary across sectors.⁶⁰³

In fact, patent laws in many countries currently allow for a differentiation based on the field of technology, as illustrated by the extension of protection conferred to pharmaceutical patents in the USA and Europe in order to compensate for the period required to obtain the marketing approval of a new drug.

In the light of the panel's distinction in the *EC-Canada* case between discrimination and differentiation,⁶⁰⁴ questions arise as to the extent to which national patent laws may differentiate in the treatment of patent rights and obligations on justified, *bona fide*, grounds. The Doha Declaration on the TRIPS Agreement and Public Health gives an indication in this direction. The fact that public health and, in particular pharmaceuticals (paragraphs 6 and 7), has been singled out as an issue requiring special attention in the implementation of TRIPS, suggests that public health-related patents may deserve to be treated differently from other patents. Also, French patent law, not challenged so far by any WTO Member, differentiates in the treatment of pharmaceutical products for the purposes of granting compulsory licences.⁶⁰⁵

⁶⁰² See, e.g., Lester Thurow, *Needed: A New System of Intellectual Property Rights*, Harvard Business Review, September – October: 1997.

⁶⁰³ See Chapter 22 below.

⁶⁰⁴ See Section 3 above.

⁶⁰⁵ The French patent law provides that: "Where the interest of public health demand, patents granted for medicines or for processes for obtaining medicines, for products necessary in obtaining such medicines or for processes for manufacturing such products may be subject to *ex officio* licences in accordance with Article L. 613-17 in the event of such medicines being made available to the public in insufficient quantity or quality or at (abnormally high prices) by order of the Minister responsible for industrial property at the request of the Minister responsible for health." (Law No. 92-597 of 1 July, 1992, Article L. 613-16).