

## 32: Dispute Settlement

### Article 64 Dispute Settlement

1. The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding shall apply to consultations and the settlement of disputes under this Agreement except as otherwise specifically provided herein.
2. Subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 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.
3. During the time period referred to in paragraph 2, the Council for TRIPS shall examine the scope and modalities for complaints of the type provided for under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 made pursuant to this Agreement, and submit its recommendations to the Ministerial Conference for approval. Any decision of the Ministerial Conference to approve such recommendations or to extend the period in paragraph 2 shall be made only by consensus, and approved recommendations shall be effective for all Members without further formal acceptance process.

### 1. Introduction: terminology, definition and scope

#### 1.1 General observations concerning the WTO Dispute Settlement System

In the WTO context, the need for dispute settlement arises whenever a Member considers that any benefits accruing to it under the WTO agreements are being impaired through measures taken by another Member.<sup>38</sup> Since the WTO agreements are based on the idea of reciprocal and mutually advantageous economic

<sup>38</sup> See Article 3:3 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) as well as Article XXIII:1 GATT. Note that a Member has broad discretion in deciding to bring a case against another Member under the DSU, as is made clear by the Appellate Body in *EC – Regime for the Importation, Sale and Distribution of Bananas* [hereinafter *EC – bananas*] WTO document WT/DS27/AB/R, para. 135, basing its argumentation on the language in Article XXIII GATT 1994 (“If any Contracting Party should consider that any benefit [ . . . ] is being nullified or impaired [ . . . ]”) and Article 3.7 DSU (“Before bringing a case, a Member shall exercise its judgement as to whether action under these procedures would be fruitful.”).

benefits through trade liberalization,<sup>39</sup> it is the principal objective of WTO dispute settlement to reinstall, as quickly as possible, a situation in which every Member can fully enjoy the benefits it is entitled to under the various agreements.<sup>40</sup> For the realization of this objective, the DSU provides a very detailed and rules-based procedure, which consists of several different phases, each of which is subject to mandatory time frames. In the following, this procedure will briefly be described. The methods of interpretation under the DSU are discussed in Annex 1 at the end of this chapter.

## 1.2 Overview of the procedure

### 1.2.1 The consultations

As a first step, the Members involved in the dispute are supposed to enter into consultations, which consist of legally non-binding, diplomatic negotiations with a view to reaching a mutually satisfactory solution. In this context, the traditional methods of good offices, conciliation and mediation may be employed.<sup>41</sup>

### 1.2.2 The panel phase

In case the consultations do not arrive at a solution within 60 days, or in case the party complained against refuses to engage in consultations in the first place, the complaining party may request the WTO's Dispute Settlement Body (DSB) to establish a dispute settlement panel.<sup>42</sup> The defendant may refuse such a request once, but if the request is renewed, it may only be rejected through the DSB by unanimity (i.e., including the Member that requested the establishment of the panel).<sup>43</sup> For this reason, the complainant may be said to have an actual right to a panel once the time limits described above have elapsed. The panels are normally composed of three independent trade experts,<sup>44</sup> who examine the dispute

<sup>39</sup> See the third para. of the preamble of the Marrakesh Agreement as well as Article 3:3 DSU, which stresses the importance for the effective functioning of the WTO of the "maintenance of a proper balance between the rights and obligations of Members".

<sup>40</sup> See Article 3:7 DSU.

<sup>41</sup> This is expressly provided for by Article 5 DSU. Requests for consultations shall be notified to the WTO's Dispute Settlement Body (DSB), containing the reason for the request, i.e., an identification of the measure at issue and an indication of the legal basis for the complaint, Article 4:4 DSU.

<sup>42</sup> See Article 4:7 DSU, which also refers to the possibility to request the establishment of a panel *before* the 60 days have passed if both parties jointly consider that the consultations have failed.

<sup>43</sup> See Article 6.1 of the DSU: "If the complaining party so requests, a panel shall be established at the latest at the DSB meeting following that at which the request first appears as an item on the DSB's agenda, unless at that meeting the DSB decides by consensus not to establish a panel." [footnote omitted]

<sup>44</sup> See Article 8:3 DSU, which in principle excludes the participation as panelists of individuals whose governments are parties to the dispute or third parties. Under current WTO practice, the panel's chair is usually given to an experienced panelist, who will be assisted by a Geneva-based negotiator and an academic with a legal background (see also Article 8:1 DSU). The nomination of the panelists is up to the parties, who in more than 50% of the cases cannot find three persons who are acceptable to both of them. In that case, it is the WTO Director-General who appoints the panelists, in consultation with the chairman of the DSB and the chairman of the relevant Council or Committee, as stipulated in Article 8:7 DSU.

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according to certain terms of reference<sup>45</sup> in order to find out whether the measures complained of have actually impaired the complaining party's benefits.<sup>46</sup> The terms of reference serve the important function of defining the scope of the panel's jurisdiction. The panel will only have the authority to adjudicate on those provisions explicitly mentioned in the terms of reference.<sup>47</sup> In order for a claim to be inserted into the terms of reference, it must have been referred to in the request for the establishment of the panel (see above).<sup>48</sup> This highlights the importance of a careful drafting of the request for a panel. Indirectly, this request determines the scope of the later panel report. According to Article 6:2 DSU, the request has to contain an identification of the specific measure complained of as well as the legal basis which the complainant considers affected.<sup>49</sup> It is important to note that the complaining party may at any time request the panel to suspend the proceedings.<sup>50</sup> Once the panel has come to its conclusions, it issues an interim report to the parties, including both the descriptive section and the panel's findings and

<sup>45</sup> The terms of reference are either the standard ones expressly provided for in Article 7:1 DSU, or specific ones agreed upon by the parties, Article 7:1 DSU.

<sup>46</sup> This is usually the case if a violation of any WTO obligation on the part of the party complained against is established. For further details, see below, Section 3.

<sup>47</sup> See Appellate Body Report on *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50/AB/R, para. 92: "[...] A panel may consider only those claims that it has the authority to consider under its terms of reference. A panel cannot assume jurisdiction that it does not have. In this case, Article 63 was not within the Panel's jurisdiction, as defined by its terms of reference. Therefore, the Panel had no authority to consider the alternative claim by the United States under Article 63."

<sup>48</sup> See Appellate Body Report on *Brazil – Measures Affecting Desiccated Coconut*, (fn. 9), p. 22. See also the Appellate Body Report on *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50/AB/R, paras. 88, 89 (partly quoting the *EC – bananas* decision): "[...] Article 6.2 of the DSU requires that the claims, but not the arguments, must all be specified sufficiently in the request for the establishment of a panel in order to allow the defending party and any third parties to know the legal basis of the complaint. If a claim is not specified in the request for the establishment of a panel, then a faulty request cannot be subsequently "cured" by a complaining party's argumentation in its first written submission to the panel or in any other submission or statement made later in the panel proceeding. Thus, a claim must be included in the request for the establishment of a panel in order to come within a panel's terms of reference in a given case [...]"

<sup>49</sup> According to the Appellate Body in the *EC – bananas* case, the complaining party, in order to meet the requirements in Article 6:2 DSU, has to "list the provisions of the Agreements alleged to have been violated without setting out detailed arguments as to which specific aspects of the measures at issue related to which specific provisions of those agreements. In our view, there is a significant difference between the *claims* identified in the request for establishment of a panel, which establish the panel's terms of reference under Article 7 of the DSU, and the *arguments* supporting those claims, which are set out and progressively clarified in the first written submissions, the rebuttal submissions and the first and second panel meetings with the parties." (para. 141 of the report; emphasis in the original). Consequently, panels may not, in their examination, go beyond the legal claims expressly advanced by the complainant. However, they are by no means bound by the legal arguments put forward by the parties.

<sup>50</sup> Article 12:12 DSU. This might be the result of successful diplomatic consultations between the parties (see above), which may be continued while the panel process proceeds, Article 5:5 DSU. If the panel's work has been suspended for more than 12 months, the authority for establishment of the panel shall lapse, Article 12:12 DSU.

conclusions.<sup>51</sup> The parties may request the review of precise aspects of the interim report, after which the panel circulates the final report to the parties and to the DSB (i.e., all other WTO Members). The report is then adopted by the DSB, unless a party to the dispute appeals to the Appellate Body (or in the unlikely event that the DSB decides by consensus not to adopt the report).<sup>52</sup> According to Article 20 DSU, the period between the date of establishment of the panel by the DSB and the date the DSB considers the panel or appellate report for adoption shall as a general rule not exceed nine months where the panel report is not appealed or 12 months where the report is appealed.

### 1.2.3 The appellate phase

Contrary to the panels, whose members are appointed on a case-by-case basis, the Appellate Body is a standing organ whose task is limited to the review of legal issues.<sup>53</sup> Its members are persons of recognized authority, with demonstrated expertise in law, international trade and the subject matter of the WTO agreements in general.<sup>54</sup> The appellate review is subject to tight deadlines: in general it is supposed not to exceed 60 days from the date a party to the dispute formally notifies its decision to appeal to the date the Appellate Body circulates its report. Even in exceptional circumstances the final report must absolutely be circulated to the DSB within 90 days. In case the AB reaches the conclusion that the measure at issue is inconsistent with a WTO obligation, it recommends that the Member concerned bring the measure into conformity with that obligation.<sup>55</sup> Here again, the report is adopted by the DSB (unless in the unlikely event of a consensus among Members not to adopt it).<sup>56</sup>

### 1.2.4 The implementation of DSB decisions

Once adopted, the phase of implementation of the panel or Appellate Body report begins. 30 days after the adoption, the Member concerned shall inform the DSB of its intentions in respect of implementation of the report.<sup>57</sup> The DSB monitors the effective implementation by that Member.<sup>58</sup> The original panel can be re-established in order to assess whether the implementing measures taken by the defendant meet the relevant WTO obligations.<sup>59</sup>

<sup>51</sup> See Article 15, paras. 2 and 3 DSU. For the panel work's timetable, see para. 12 of the Working Procedures (Appendix 3 to the DSU) and the graphical overview in Box 1 at the end of this section, below.

<sup>52</sup> Article 16:4 DSU. This also requires the consent of the winning party not to adopt the report.

<sup>53</sup> See Article 17, in particular paras. 1 and 6.

<sup>54</sup> Article 17:3 DSU.

<sup>55</sup> See Article 19:1 DSU.

<sup>56</sup> Article 17:14 DSU, again implying the consent of the winning party.

<sup>57</sup> Article 21:3 DSU.

<sup>58</sup> The Member concerned is granted a "reasonable period of time" to implement the rulings of the DSB. This period can be determined through binding arbitration, Article 21:3 c) DSU.

<sup>59</sup> Article 21:5 DSU. This procedure was employed, for instance, against the EC's implementing measures in the *EC – bananas* case (concerning the WTO-irregularity of the EC's import regime for bananas).

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### 1.2.5 The case of non-compliance

In case the Member concerned fails to implement an adopted report, the parties to the dispute shall enter into negotiations with a view to developing mutually acceptable compensation.<sup>60</sup>

If these negotiations fail, any party having invoked the dispute settlement procedures may request authorization from the DSB to suspend the application to the Member concerned of concessions or other obligations under the WTO Agreements.<sup>61</sup> Should the complaining party consider the suspension of concessions from the same sector or the same multilateral agreement as that in which a violation has been found to be impracticable or ineffective, it may also, on some carefully defined conditions, suspend concessions or other obligations under another of the covered agreements (“cross-retaliation”).<sup>62</sup> Thus, if country “A” is found to be in contravention of TRIPS by nullifying benefits accruing to country “B” in the area of intellectual property, the latter country could suspend concessions to country “A” in another area such as tariffs or services.

### 1.2.6 The scope of the dispute settlement procedure

Finally, it should be noted that with respect to trade in goods and services, the above procedure is not only applicable where the complaining party asserts a violation of any WTO obligation (“violation complaints”, see Article XXIII:1 a GATT), but comes equally into play when one Member’s measure, without violating any WTO rule, still results in factual nullification or impairment of benefits accruing to another Member (“non-violation complaints”, see Article XXIII:1 b GATT; Article XXIII:3 GATS), or when the “existence of any other situation” leads to the same result (“situation” complaints, see Article XXIII:1 c GATT). The peculiarity of the notion of non-violation is that it does not, like many other international treaties, focus on the legality of an action, but rather on the protection of expectations arising from reciprocal tariff and market access concessions (in the GATT context)<sup>63</sup> or from a Member’s specific commitments (in the GATS context). These might be affected even by measures that are not prohibited by GATT/GATS rules and therefore have to be addressed through non-violation complaints.<sup>64</sup> Finally, “situation” complaints were introduced in the GATT 1947 as a catch-all category to deal with unforeseen new developments.<sup>65</sup> In the TRIPS context, neither non-violation nor “situation” complaints are currently applied (see below, Section 3).

<sup>60</sup> Article 22:2 DSU. Note that the full implementation of the DSB rulings is the preferred option; see Article 22:1 DSU.

<sup>61</sup> Article 22:2 DSU.

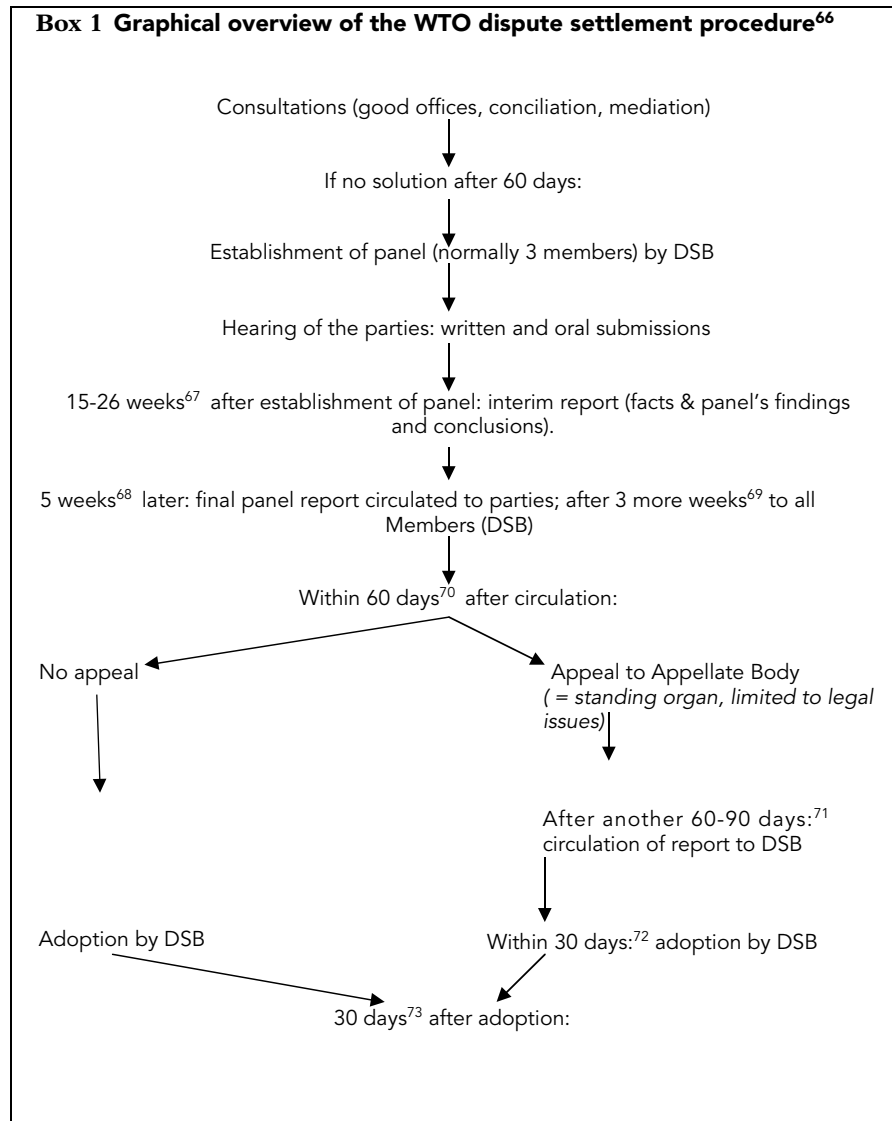
<sup>62</sup> See Article 22:3 DSU with further details.

<sup>63</sup> See Petersmann, *The GATT/WTO Dispute Settlement System. International Law, International Organizations and Dispute Settlement*, Kluwer Publishers, 1997, p. 73 and especially pp. 142 ff [hereinafter Petersmann]. According to this author, this approach goes back to the pre-World War II U.S. bilateral trade agreements.

<sup>64</sup> For example, some domestic legislation of country “A” which, even though fully respecting the WTO most-favoured-nation (MFN) and national treatment obligations, influences in a negative way the conditions of sale for certain products irrespective of their origin. Country B, which has negotiated lower tariffs with country A in order to enhance marketing opportunities for its products, considers these efforts frustrated and seeks to challenge country A’s domestic legislation.

<sup>65</sup> In this context, Petersmann (p. 73) mentions worldwide monetary crises or depressions with widespread unemployment.

**Box 1 Graphical overview of the WTO dispute settlement procedure<sup>66</sup>**



<sup>66</sup> The concept of this overview is modeled upon Gervais, *The TRIPS Agreement. Drafting History and Analysis*, London, 1998, p. 251.

<sup>67</sup> See para. 12 (g) of Appendix 3 (Working Procedures) to the DSU.

<sup>68</sup> *Ibid.*, para. 12 (j).

<sup>69</sup> *Ibid.*, para. 12 (k).

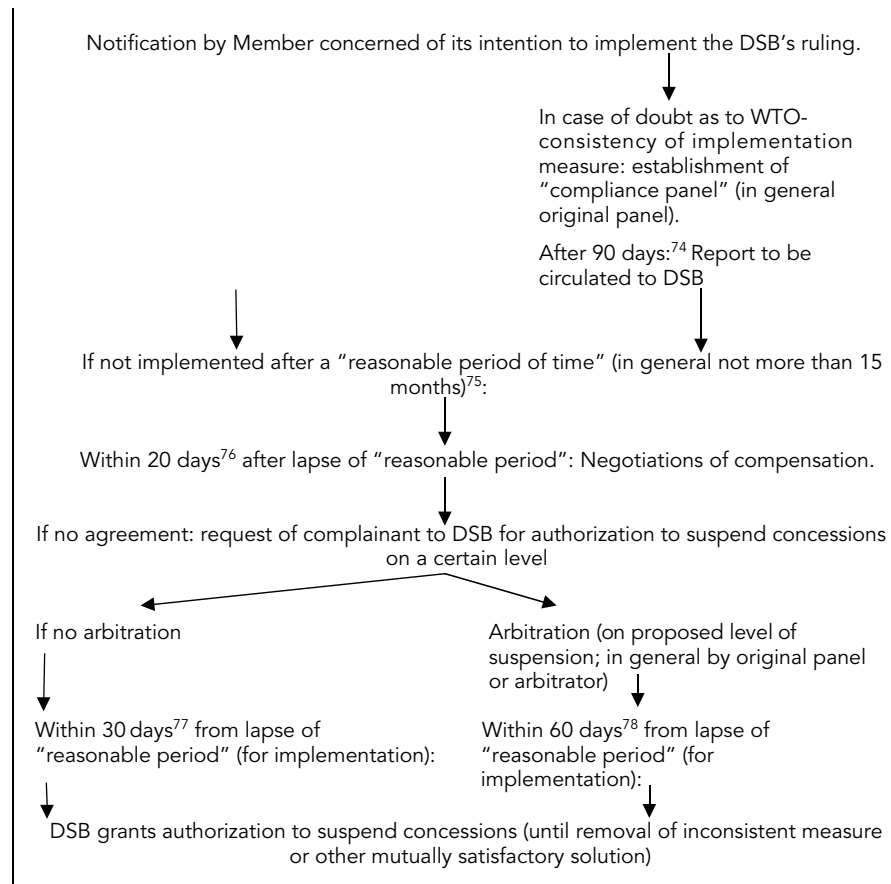
<sup>70</sup> Article 16:4 DSU.

<sup>71</sup> Article 17:5 DSU.

<sup>72</sup> Article 17:14 DSU.

<sup>73</sup> Article 21:3 DSU.

## 2. History of the provision



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### 2.1 Situation pre-TRIPS

It is usually thought that intellectual property rights and related dispute settlement were brought into the ambit of the GATT/WTO for the first time after the conclusion of the Uruguay Round. This is largely true in the sense that TRIPS introduces, for the first time, common minimum standards for the protection of intellectual property rights. The international treaties for the protection of IPRs (e.g., the Paris Convention), on their part, provide certain intellectual property protection

<sup>74</sup> Article 21:5 DSU.

<sup>75</sup> To be determined upon proposal of the Member concerned, through mutual agreement between the parties or through binding arbitration. See Article 21:3 DSU, in particular lit. (c).

<sup>76</sup> Article 22:2 DSU.

<sup>77</sup> Article 22:6 DSU (first sentence).

<sup>78</sup> Article 22:6 DSU (third sentence).

disciplines, but they do not contain their own dispute settlement mechanism. Instead, reference is made to the settlement of disputes before the International Court of Justice (ICJ).<sup>79</sup>

The dispute settlement system under the GATT 1947 was considerably different from that of the WTO. The detailed DSU did not exist, but parties relied on the rather general provisions of Article XXIII GATT.<sup>80</sup> This Article contained both provisions on consultations (in paragraph 1) and dispute settlement (in paragraph 2). The major difference consists of the shift of the dispute settlement system from a diplomatic forum to a rules-based, court-like procedure.<sup>81</sup>

This “legalization” of the dispute settlement system is best illustrated by the fact that under the GATT 1947, panel reports could only be adopted if all Contracting Parties, including the losing one, agreed to do so. This was in fact the exact opposite of the quasi-automatic adoption of reports under the DSU of the WTO. In other words, under the old GATT, it used to be considerably easier for the party found in violation of a GATT obligation to block the adoption of the report. It sufficed simply to vote against its adoption in the GATT Council, whereas nowadays a Member would have to convince every other Member, including the complainant, to vote against the adoption of the report.<sup>82</sup>

The second major element of the “legalization” of the dispute settlement system referred to above is the creation of the Appellate Body. Under the GATT 1947, by contrast, there was no means of reviewing the legal aspects of panel recommendations. Due to the quasi-automatic adoption of panel reports under the DSU, the possibility of review is more important than under the GATT 1947.

As far as the GATT 1947 case law is concerned, one of the most famous disputes was indeed one involving intellectual property rights, albeit indirectly. This was the panel report on *United States: Section 337 of the Tariff Act of 1930*.<sup>83</sup> This dispute brought by the EC against the USA concerned the claim by the EC that for the purpose of enforcing intellectual property rights in the USA, the imported

<sup>79</sup> See for instance Article 28(1) of the Paris Convention and Article 33(1) of the Berne Convention, both of which read in their relevant part: “(1) Any dispute between two or more countries of the Union concerning the interpretation or application of this Convention, not settled by negotiation, may, by any one of the countries concerned, be brought before the International Court of Justice by application in conformity with the Statute of the Court, unless the countries concerned agree on some other method of settlement. [...]”

<sup>80</sup> Article XXIII GATT continues to be relevant for the WTO dispute settlement procedure: Article 3:1 DSU makes it clear that Members adhere to the principles developed under that provision and that the DSU in fact further elaborates and modifies Articles XXII, XXIII GATT.

<sup>81</sup> Note that this shift did not occur all at once with the adoption of the DSU. Rather, it took place gradually under the GATT 1947. By the time of the Uruguay Round most of the current DSU rules were part of existing customary practice, except for the establishment of the Appellate Body and the quasi-automatic adoption of dispute settlement rulings, see below.

<sup>82</sup> This is what is usually referred to as “negative consensus” under the DSU in contrast to the “positive consensus” under Article XXIII GATT 1947. The same kind of automaticity now applies to the establishment of a panel (see above, Section 1), which was not the case under the GATT 1947 before the 1989 improvements of the GATT dispute settlement procedures. See Petersmann, p. 182.

<sup>83</sup> Basic Instruments and Selected Documents (BISD) 36S/345, adopted by the GATT Contracting Parties on 7 November 1989.



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goods were subjected to a separate and distinct procedure solely by virtue of their non-American origin. The EC therefore considered that the different rules applicable under Section 337 amounted to a denial of national treatment within the meaning of Article III of the GATT and could not be justified under the intellectual property-related provision of Article XX (d) GATT. After a detailed examination of the issues raised by both parties, the panel came to the conclusion that Section 337 of the U.S. Tariff Act of 1930 was in fact inconsistent with Article III:4 GATT (national treatment) and that this inconsistency could not be justified under Article XX (d) GATT.

As to the different sorts of complaints under Article XXIII GATT, over 90 percent of the actual disputes during the era of the GATT 1947 were violation complaints over nullification and impairment, whereas the number of non-violation complaints over nullification and impairment as well as of situation complaints was negligible.<sup>84</sup>

### 2.2 Negotiating history

At least until 1989, most developing countries were opposed to the inclusion of intellectual property rights on the Uruguay Round negotiating agenda. In addition, Members under the new DSU would be unable to block the adoption of panel or Appellate Body reports. For these reasons developing countries were rather hesitant, during the Uruguay Round negotiations, about applying the dispute settlement mechanism to any eventual agreement on intellectual property rights. Their idea was to keep this subject outside the scope of the new dispute settlement mechanism, mainly because a number of developing countries were not fully aware of the consequences. In particular, they rejected the possibility of enforceable dispute settlement decisions as a threat to national sovereignty. Such concerns were exacerbated by the fact that, just before the Uruguay Round negotiations, developing countries had faced considerable pressure to conform to strong IPRs by means of changing their domestic legislation.<sup>85</sup> The TRIPS negotiations on dispute settlement must be seen against this background.

#### 2.2.1 The Anell Draft

“2A PARTIES shall make reasonable efforts within the framework of their constitutional systems to inform and, upon request, to consult with the other PARTIES on possible changes in their intellectual property right laws and regulations, and in the administration of such laws and regulations relevant to the operation of this Annex. (68)

2B.1 Whenever laws, regulations and practices relevant to, and affecting, the protection and enforcement of intellectual property rights are under review or

<sup>84</sup> See Petersmann, pp. 73/74. As to the notions of non-violation and “situation” complaints, see above, Section 1 and below, Section 3.

<sup>85</sup> It was particularly in the period from 1984 to 1990 that the USA threatened to apply higher tariffs to products from those developing countries that would not adopt higher intellectual property standards.

intended to be introduced by a PARTY to this Agreement, such PARTY shall

- publish, in an official GATT language, a notice in a publication at an early appropriate stage that it proposes to introduce, amend or abolish legislation or regulation; (73)
- promptly provide, upon request, draft legislation and draft regulations, including explanatory materials, to such PARTIES; (73)
- allow, without discrimination, reasonable time of no less than [X] months for other PARTIES to submit comments in writing on the basis of the General Agreement; (73)
- consult with interested PARTIES, upon request, on the basis of comments submitted. (73)

2B.2 None of these obligations is meant to limit the sovereignty of PARTIES to legislate, regulate and adjudicate in conformity with international obligations. (73)

3. Dispute Settlement (68, 71, 73); Consultation, Dispute Settlement (74)

3A Contracting parties agree that in the area of trade related intellectual property rights covered by this Annex they shall, in relation to each other, abide by the dispute settlement rules and procedures of the General Agreement, and the recommendations, rulings and decisions of the CONTRACTING PARTIES, and not have recourse in relation to other contracting parties to unilaterally decided economic measures of any kind. Furthermore, they undertake to modify and administer their domestic legislation and related procedures in a manner ensuring the conformity of all measures taken thereunder with the above commitment. (68)

3B (i) Disputes arising under this PART shall be settled on the basis of Article XXII and Article XXIII and in accordance with the consolidated instrument [name]. (73)

(ii) Non-compliance with obligations under this PART shall be deemed to cause nullification and impairment of advantages and benefits accruing under the General Agreement on Tariffs and Trade. (73)

(iii) PARTIES shall refrain from taking any measure against another PARTY other than those provided for under the rules on dispute settlement within the General Agreement on Tariffs and Trade. (73)

3C A PARTY shall not suspend, or threaten to suspend, its obligations under the Agreement without abiding by the procedures for settlement of disputes set out in this section. (74)

3D.1 Consultations (71)

(a) Where a dispute arises concerning the interpretation or implementation of any provision of this Agreement, a PARTY may bring the matter to the attention of another PARTY and request the latter to enter into consultations with it. (71)

(b) The PARTY so requested shall provide promptly an adequate opportunity for the requested consultations. (71)

(c) PARTIES engaged in consultations shall attempt to reach, within a reasonable period of time, a mutually satisfactory solution to the dispute. (71)

3D.2 Other Means of Settlement (71)

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If a mutually satisfactory solution is not reached within a reasonable period of time through the consultations referred to at point 3D.1, PARTIES to the dispute may agree to resort to other means designed to lead to an amicable settlement of their dispute, such as good offices, conciliation, mediation and arbitration. (71)

(See also point 11 of Part II above)<sup>86</sup>

This draft in paragraph 2 referred to measures that should be taken in an effort to make domestic IP laws transparent to other countries. This provision on transparency was later separated from the rules on dispute settlement. Under the current version of TRIPS, there is an independent provision on transparency (Article 63).<sup>87</sup>

As far as the settlement of IPR-related disputes was concerned, the Anell Draft in paragraph 3 contained four different proposals (see above, 3A–D). In this context, two issues were of particular importance: whether there should be a dispute settlement system for trade-related IPRs in the first place; and the question of unilateral trade measures.

As to the former, proposals A and B both referred to the GATT 1947 dispute settlement system as the means of addressing TRIPS disputes. Proposal C also referred to “procedures for the settlement of disputes”. By contrast, the D proposal did not contain any such reference. Instead, it was limited to consultations (D.1) and other non-binding means of settlement (D.2). The purpose of this proposal was to exclude IPRs from the scope of the GATT-like dispute settlement system.

As far as unilateral trade measures were concerned, proposal A made express reference to “unilaterally decided economic measures of any kind”. These express terms were kept in the Brussels Draft (see below), but disappeared later on. The B and C proposals also subjected trade measures directed against other parties to the pertinent dispute settlement rules. The D proposal did not refer in any way to unilateral measures. As it intended to avoid binding dispute settlement, there was logically no way of strictly prohibiting such measures. They could only be addressed through consultations and other non-binding means (see above).

### 2.2.2 The Brussels Draft

“PARTIES shall not have recourse in relation to other PARTIES to unilaterally decided economic measures of any kind. Furthermore, they undertake to modify and administer their domestic legislation and related procedures in a manner ensuring the conformity of all measures taken thereunder with the above commitment.

*Note:*

In regard to dispute settlement procedures, see the Annex to this text.”<sup>88</sup>

[for a discussion of this Annex, see below]

The Brussels Draft reproduced part of the A proposal under the Anell Draft (see above, paragraph 3A). Like the latter, the Brussels Draft also had clear language

<sup>86</sup> Document MTN.GNG/NG11/W/76, of 23 July 1990.

<sup>87</sup> For details of this provision, see Chapter 31.

<sup>88</sup> Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Revision, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 Dec. 1990.

against unilateral measures and required those countries resorting to such practices to modify their domestic legislation in a manner ensuring the conformity of all action with the commitment not to resort to unilateral measures.<sup>89</sup>

As far as the applicability to trade-related IPRs was concerned, the Brussels text of December 1990 indicated clearly that there was no consensus on this issue. Thus, the Brussels text in an Annex (see above) provided three options. The first one was to make the dispute settlement procedures apply “as far as possible” but to put it outside the ambit of “cross-retaliation.”<sup>90</sup> The second option was to admit the GATT-type panel procedure but without any trade sanctions. The TRIPS Committee (later “Council for TRIPS”) was supposed to monitor the implementation of any ruling or recommendation by a panel. The third option (which was later adopted under TRIPS) was to bring trade-related IPRs fully under the binding dispute settlement of the Uruguay Round, including the recourse to cross-retaliation.

### 2.2.3 The Dunkel Draft

“Article 64

Dispute Settlement

The provisions of Articles XXII and XXIII of the General Agreement on Tariffs and Trade and the Understanding on Rules and Procedures Governing the Settlement of Disputes under Articles XXII and XXIII of the General Agreements on Tariffs and Trade as adopted by the CONTRACTING PARTIES shall apply to consultations and the settlement of disputes under this Agreement except as otherwise specifically provided herein. [footnote]

[Footnote:] This provision may need to be revised in the light of the outcome of work on the establishment of an Integrated Dispute Settlement Understanding under the Agreement Establishing the Multilateral Trade Organisation.”<sup>91</sup>

Between the Brussels Draft of December 1990 and the Dunkel Draft of December 1991, there were further efforts on the part of industrialized countries to convince their developing country counterparts to agree to full coverage of dispute settlement with regard to TRIPS. When the GATT Director-General put forward his draft he laid emphasis on the point that this area was to be fully covered by the new dispute settlement system. In order to seek a modification of the

<sup>89</sup> Arguably, this was primarily aimed at the USA and its Section 301–310 legislation, according to which the U.S. Trade Representative (USTR) may determine, even before the conclusion of multilateral dispute settlement proceedings, that another WTO Member has not met its WTO obligations and may thus be exposed to U.S. trade sanctions. Note that in a later dispute, a WTO panel upheld Section 301–310 against EC claims of WTO-inconsistency (See *US – Sections 301–310 of the Trade Act of 1974* – Report of the panel of 22.12.1999, WTO document WT/DS 152/R). However, the panel made clear that the sole reason why it considered Section 301–310 as being in line with Article 23 of the DSU (i.e., the prohibition of certain unilateral action) was because through administrative measures, the statutory discretion of the USTR as described above was limited to the effect that the USTR would not be permitted to make any unilateral determinations before the exhaustion of DSU proceedings. The panel stressed that, should this limitation of the USTR’s discretionary powers be lifted, Sections 301–310 would be rendered inconsistent with Article 23 of the DSU (paras. 7.126, 7.136).

<sup>90</sup> Thus, retaliatory action would have been possible only with respect to obligations under TRIPS, but not under other covered agreements.

<sup>91</sup> See document MTN.TNC/W/FA of 20 December 1991.

## 2. History of the provision

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draft, a country had to assure consensus, which proved impossible for most, if not all, developing countries.<sup>92</sup> From the industrialized countries' point of view, the insistence on dispute settlement in the Dunkel Draft was only logical: it would have made no sense to adopt such an agreement and then leave it to Member countries to comply on a voluntary basis. What is important to note, though, is that the express reference to unilateral measures, included in the Brussels Draft, was absent in the Dunkel Draft. It was only later that some language which may be interpreted as being directed against unilateral measures (but without mentioning the word "unilateral") was incorporated in the DSU (Article 23) and in the Marrakesh Agreement establishing the WTO (Article XVI:4). It is particularly Article 23 DSU that can be considered as responding to developing countries' concerns about unilateral measures on the part of industrialized Members. This provision clearly establishes Members' obligation to have recourse to the DSU rules and procedures, and not to determine unilaterally whether another Member has nullified or impaired any benefits accruing under a WTO agreement.

Finally, the Dunkel Draft did not address the question of whether non-violation complaints<sup>93</sup> should apply to TRIPS. This issue only arose in the Legal Drafting Group in 1992–93. Some countries argued that TRIPS was substantially different from either the GATT tariff type commitments or the specific commitments undertaken by Members in the GATS context.<sup>94</sup> TRIPS was not about such commitments but about minimum standards. So, these countries took the view that non-violation should not apply to TRIPS at all, or at least it was not clear how non-violation would apply to TRIPS. The rationale behind this view was some Members' concern that the applicability of non-violation complaints to TRIPS might eventually lead to *de facto* intellectual property standards higher than those actually agreed to during the negotiations.<sup>95</sup>

Other Members, on the other hand, were concerned that the absence of non-violation complaints would enable governments to undermine their TRIPS obligations by resorting to lawful, but narrow interpretations of the TRIPS protection standards.<sup>96</sup> After discussing the matter thoroughly, parties agreed on a

<sup>92</sup> When introducing his draft, the GATT Director-General insisted that this was a "take it or leave it" document, thus requiring GATT Parties to support any modifications through unanimity.

<sup>93</sup> For a definition see above, Section 1.

<sup>94</sup> Note that the objective behind "non-violation complaints" in the GATT is to assure the benefits from reciprocal tariff concessions. See above, Section 1.

<sup>95</sup> Cottier/Nadakavukaren Schefer, *Non-Violation Complaints in WTO/GATT Dispute Settlement: Past, Present and Future* [hereinafter Cottier/Nadakavukaren Schefer], in: Petersmann (ed.), *International Trade Law and the GATT/WTO Dispute Settlement System*, London, The Hague, Boston, 1997, pp. 145 (156). Note that this position was not only taken by developing countries but also by the EC. The latter was concerned that its market access restrictions in the audio-visual sector might be challenged by the USA through non-violation complaints. See Abbott, *Dispute Settlement Under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)*, draft paper for the UNCTAD Handbook on WTO Dispute Settlement, 2002, p. 32 [hereinafter Abbott, UNCTAD Handbook].

<sup>96</sup> *Ibid.* In the same context, see also Roessler, *The Concept of Nullification and Impairment in the Legal System of the World Trade Organization* [hereinafter Roessler], in: Petersmann (ed.), *International Trade Law and the GATT/WTO Dispute Settlement System*, London, The Hague,

moratorium concerning the applicability of non-violation to TRIPS. This compromise is reflected in the second paragraph of Article 64, which provides for a moratorium for five years during which non-violation shall not apply to TRIPS. Whether or not it applies after this period is a controversial issue.<sup>97</sup>

### 3. Possible interpretations

#### 3.1 Violation complaints, Article 64.1

The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding shall apply to consultations and the settlement of disputes under this Agreement except as otherwise specifically provided herein.

The part of Article XXIII GATT relevant for the present purpose reads:

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

(a) the failure of another contracting party to carry out its obligations under this Agreement, [ . . . ]”

On this basis, paragraph 1 of the same Article then provides for consultations between the parties, whereas paragraph 2 establishes the GATT 1947 dispute settlement system, on which the current and more detailed DSU is based.

The first paragraph of Article 64 clarifies that the dispute settlement mechanism as developed in the Uruguay Round will apply fully to the Agreement. The only exception to this is the issue of non-violation and its applicability to TRIPS, which is discussed below. Thus, Article 64.1 makes violation complaints applicable to the Agreement.

The full applicability of the DSU means that TRIPS is justiciable before the WTO. It is the automatic and binding character of the dispute settlement mechanism (see Section 1 above) which makes the provisions of TRIPS fully enforceable.

According to long-established GATT practice as confirmed by the Appellate Body,<sup>98</sup> violation complaints (Article XXIII:1 (a) GATT) follow the purpose of protecting Members' expectations as to the *competitive relationship* between their own and foreign products. In case this competitive relationship is upset, there is nullification or impairment of the benefits accruing to that Member

Boston, 1997, p. 125 (138), who gives the example of prohibitively high fees for patent registration or non-binding, purely informal state action as something not specifically covered by TRIPS. The same author, however, argues that such cases could be addressed as violation complaints.

<sup>97</sup> See below, Sections 3 and 7.

<sup>98</sup> See *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products* – complaint by the United States, Report of the Appellate Body of 19 December 1997, WTO document WT/DS50/AB/R [hereinafter *India – Patent Protection*].

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whose nationals, products or services suffer from a deterioration of competitive conditions.<sup>99</sup>

The competitive relationship is reflected in the legal obligations as set up by GATT/WTO rules.<sup>100</sup> It is upset

- if one Member violates one of its WTO obligations (e.g., the national treatment principle, or a substantive intellectual property right),
- if this violation cannot be justified (e.g., through one of the substantive exceptions such as Articles 30 in the area of patents; or Article XX GATT 1994 in a trade in goods-context)
- and if, in addition, this has an adverse impact on the Member whose right has been violated (Article 3:8 DSU).

For one Member to convince a panel or the Appellate Body that the competitive relationship has been upset (i.e., that there is a nullification of its competitive benefits), it needs to provide evidence for an infringement of a WTO rule on the part of the respondent. Once this infringement is established, there is a *prima facie* presumption that the respondent has nullified or impaired benefits accruing to the complainant.<sup>101</sup> In the language of Article 3:8, second sentence of the DSU:

“This means that there is normally a presumption that a breach of the rules has an adverse impact on other Members parties to that covered agreement, and in such cases, it shall be up to the Member against whom the complaint has been brought to rebut the charge.”<sup>102</sup>

It follows from the language of this provision that a “breach of the rules” alone is not sufficient, but that there has to be an “adverse impact” of the respondent’s action on the complaining Members. This “adverse impact” consists of a nullification or impairment of the competitive relationship. However, as the cited provision stipulates, the complaining Member is not required to demonstrate this nullification/impairment. All it needs to show is that there is a violation of a

<sup>99</sup> In other words, in the context of violation complaints, the “benefits” in the sense of Article 3:3 of the DSU and Article XXIII:1 of the GATT 1994 consist of an undistorted competitive relationship between domestic and foreign intellectual property right holders, products or services.

<sup>100</sup> E.g., the disciplines of most-favoured-nation treatment and national treatment, assuring equal treatment of equal products and thus a fair competitive relationship between domestic and imported goods/services. In the TRIPS context, it is Article 3 (national treatment) and Article 4 (most-favoured-nation treatment) that reflect the right of Members to have their nationals abroad treated as favourably as the nationals from other Members. Also, the obligation to respect substantive IPRs such as patents and trademarks is part of the competitive relationship under TRIPS as established in the Uruguay Round negotiations. Substantive IPR rules, for instance on patents, make sure that inventors can still market their products, despite high R&D costs. Note that, according to the TRIPS preamble, intellectual property rights are private rights. Therefore, TRIPS obligations on substantive IPRs apply not only *vis-à-vis* other states, but equally with respect to individuals.

<sup>101</sup> See Article 3:8. (first sentence) of the DSU.

<sup>102</sup> Before the entry into force of the DSU, the same rule applied to the GATT 1947, as decided by the Contracting Parties in 1960, see GATT, BISD, 11S/99-100.

WTO rule, which again results in an automatic presumption of nullification or impairment.<sup>103</sup>

If the respondent intends to remove the presumption of nullification or impairment, it is up to the respondent to rebut the charge.<sup>104</sup> It has to show that despite a violation of WTO law, there is no “adverse impact”<sup>105</sup> on the complainant.

At this point, GATT/WTO practice differs considerably from the language of Article 3:8 DSU or the analogous previous decision of the GATT Contracting Parties. In the history of GATT/WTO dispute settlement, there has not been a single case where the respondent could successfully rebut the presumption of impairment by denying an adverse impact of its measure on other Parties/Members.<sup>106</sup> In other words, despite the language employed in Article 3:8 DSU, the presumption established by the violation of a WTO rule is practically not rebuttable, it is in fact an irrefutable presumption.<sup>107</sup>

Consequently, the only way for the respondent to win the case is to convince the panel or the Appellate Body that there is no violation in the first place; either by addressing the asserted violation as such, or by providing evidence that the violation is justified under an exception clause. Once an unjustifiable violation

<sup>103</sup> Note that, in order for the violation to be established and to activate the presumption of nullification/impairment as stipulated under Article 3:8 of the DSU, the violation must not be justifiable under any of the exception clauses of the pertinent agreement, such as TRIPS Article 30 (general exception to patent rights), or Article 31 (compulsory licenses). In other words, the responding Member has the possibility of preventing the presumption of nullification or impairment by showing that the infringement of WTO law is justified. Only if the panel/Appellate Body comes to the conclusion that the measure at issue is not justifiable, the infringement is actually established and the presumption under Article 3:8 DSU comes into play.

<sup>104</sup> See Article 3:8 of the DSU as cited above.

<sup>105</sup> See Article 3:8 of the DSU.

<sup>106</sup> See Roessler, pp. 125 (127 ff.), with several examples of GATT panel reports.

<sup>107</sup> *Idem.*, p. 129, quoting the panel in *US – Taxes on Petroleum and Certain Imported Substances* (Superfund case), BISD 34S/156–158. For an explanation of this approach, this author points out, *inter alia*, parts of the same report (154–159), where the panel states that a violation of GATT Article III:2 first sentence results *ipso facto* in a nullification of benefits, rejecting the U.S. argument of a missing negative trade impact of the measure at issue. This view was confirmed by the Appellate Body in *EC – Regime for the Importation, Sale and Distribution of Bananas*, WT/DS27/AB/R, at section IV, C, 6 (d), para. 253. The reluctance to take into account any demonstration of an absence of an “adverse impact” (see Article 3:8 DSU) can be explained by the fact that the GATT and now the WTO do *not* protect any expectations concerning *export volumes*, but expectations with respect to the *competitive relationship* between domestic and imported products (or, in the case of GATS and TRIPS, between national and foreign service suppliers or intellectual property rights holders). For example, if Member A violates a WTO rule to the detriment of Member B, the mere fact that there is a violation upsets the competitive relationship established by this rule (e.g., the most-favoured-nation or national treatment, or substantive rules on intellectual property protection). In that case, the conditions of competition for products or nationals from Member B have certainly been negatively affected, even though this might not right away be mirrored in actual trade volumes. Trade volumes might not be affected by actions that only minimally disfavour foreign production, because foreign producers might consider it worthwhile to continue selling the same amount of products on a given market, in spite of slightly higher costs. However, the competitive conditions would always be modified to the detriment of the foreign IPR holder (or product or service supplier in a GATT or GATS context), because prices for products or services on the given market would be slightly lower for domestic rights holders. In other words, the “adverse impact” required in Article 3:8 of the DSU is caused by the violation itself, upsetting the carefully negotiated balance of competitive conditions as expressed in WTO rules.



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has been established, previous GATT practice indicates that the respondent has no more possibilities to prevent the panel/Appellate Body from definitely affirming a case of nullification or impairment.<sup>108</sup>

Article 22:2 DSU provides for retaliatory action in the form of suspension of concessions if the defendant fails to bring the measure found to be inconsistent with a WTO agreement into compliance therewith. In case the inconsistency arises in the TRIPS area, several problematic issues requiring further thought have been observed.<sup>109</sup> These issues will be dealt with in the following paragraphs.

#### 3.1.1 Retaliation in the same sector

As a general rule, retaliation will be authorized to take place in the same sector<sup>110</sup> where the TRIPS violation has occurred. For example, if Member A has failed to bring a national measure into conformity with the TRIPS provisions on patents, the affected Member B will be authorized, on the conditions laid down in Article 22:2 DSU, to equally disregard its TRIPS patent obligations with respect to nationals from Member A. However, neither TRIPS nor the DSU clarifies the exact scope of this retaliation. Thus, it is not clear what becomes of the patents that have been granted by Member B's authorities to nationals from Member A. For instance, many domestic producers manufacture the patented products without compensating the patent holder from Member A? In the case of trademarks, would the owner be refused the right to demand royalties for their utilization, and in addition, would he be refused the right to control the quality of his trademarked products when these are sold in the market of Member B? As to copyright, would it be legal, *after* the suspension has been lifted, to recopy without consent of the right holder those copies that could be made without the latter's consent *during* the period of suspension of the copyright?

#### 3.1.2 Retaliation in a different sector or a different WTO Agreement

If the complaining party considers that retaliation in the same sector is not practicable or effective, it may seek the suspension of concessions or other obligations in other sectors under the same agreement (see Article 22.3(b) of the DSU). In case the complainant considers even this remedy to be impracticable or ineffective, and if it also considers that the circumstances are sufficiently serious, the complainant may seek to suspend concessions or other obligations under another WTO agreement covered by the DSU (see Article 22:3(c) of the DSU: note that it is

<sup>108</sup> Thus, the burden of proof first lies with the complainant, who has to show that the respondent has not respected a substantive WTO rule. In case the respondent intends to invoke an exception clause, the burden of showing that the requirements of the exception are met is shifted to the respondent. As to the burden of proof, see also the 1997 Appellate Body Report on *India – Woven Wool Shirts and Blouses*, WT/DS33/AB/R, under Section IV.

<sup>109</sup> See Abbott, *WTO Dispute Settlement and the Agreement on Trade-Related Aspects of Intellectual Property Rights* [hereinafter Abbott, *WTO Dispute Settlement*], in: Petersmann (ed.), *International Trade Law and the GATT/WTO Dispute Settlement System*, London, The Hague, Boston, 1997, p. 415 (432, 433).

<sup>110</sup> According to Article 22:3 (f) (iii) of the DSU, the term "sector" indicates one category of intellectual property rights covered under the TRIPS Agreement, such as section 1 (Copyright and Related Rights), section 2 (Trademarks), section 3 (Geographical Indications), etc.

up to the complainant to determine the seriousness of the situation that justifies retaliation under another agreement).

For example, the failure on the part of one Member (A) to bring its inconsistent measure into conformity with, for instance, the TRIPS patent provisions may be responded to by the suspension of concessions to Member A in the area of, for example, trademarks (i.e., a different TRIPS sector) or even trade in goods (i.e., a different WTO Agreement).<sup>111</sup>

This gives rise to the same problems as in the case of retaliation in the same sector (see above), but there is another particularly complicated issue in the case of cross-retaliation. According to Article 22:4 of the DSU, the level of the suspension of concessions authorized by the DSB shall be equivalent to the level of nullification or impairment.<sup>112</sup> For this purpose, the DSB has to make a factual assessment of the actual level of impairment caused by the defendant's measure and then ensure that the proposed retaliation does not go beyond this economic impact. Such assessment is a rather complex task, especially when the DSB has to compare the economic impacts of two measures in completely different areas such as, for instance, patents on the one hand and trade in bananas on the other. At this point, there is a risk of the retaliation having a disproportionately greater impact on the respondent than the original measure has on the complainant.<sup>113</sup>

### 3.2 Non-violation and situation complaints, Article 64.2 and 3

2. Subparagraphs 1 (b) and 1 (c) of Article XXIII of GATT 1994 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.

3. During the time period referred to in paragraph 2, the Council for TRIPS shall examine the scope and modalities for complaints of the type provided for under subparagraphs 1 (b) and 1 (c) of Article XXIII of GATT 1994 made pursuant to this Agreement, and submit its recommendations to the Ministerial Conference for approval. Any decision of the Ministerial Conference to approve

<sup>111</sup> According to Article 22:3 (b), (c), these two forms of retaliation may be authorized by the DSB if the complainant considers that the simple form of retaliation (see above) is not practicable or effective and that the circumstances are serious enough. The question whether it is the complainant's prerogative to determine if simple retaliation is practicable or effective is not clearly answered in the DSU. Article 22:6 DSU just authorizes the respondent to request the establishment of an arbitration panel in case "principles and procedures set forth in paragraph 3 [i.e., the requirements for the suspension of concessions] have not been followed". WTO jurisprudence has clarified that such an arbitration panel does have the authority to review and reverse the complainant's assessment of impracticability or ineffectiveness. The respective panel also ruled that cross-retaliation is only admissible to the extent that simple retaliation is insufficient to reach the level of nullification or impairment. See *EC – Regime for the Importation, Sale and Distribution of Bananas, Recourse to Article 22.6 DSU*, WTO documents WT/DS27/53, WT/DS27/ARB/ECU. In this case Ecuador, as the first developing country ever, was authorized to cross-retaliate against the EC and to suspend its obligations under the TRIPS Agreement in response to violations of the GATT 1994 by the EC. See in more detail below, Section 7.

<sup>112</sup> This level can be determined through binding arbitration, Article 22:6, 7 of the DSU.

<sup>113</sup> See Abbott, *WTO Dispute Settlement*, p. 433.

### 3. Possible interpretations

such recommendations or to extend the period in paragraph 2 shall be made only by consensus, and approved recommendations shall be effective for all Members without further formal acceptance process.

Subparagraphs 1 (b) and 1 (c) of Article XXIII of the GATT 1994 provide that:

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

[...]

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

(c) the existence of any other situation [...].”

On this basis, paragraph 1 of the same Article then provides for consultations between the parties, whereas paragraph 2 establishes the GATT 1947 dispute settlement system, on which the current and more detailed DSU is based.

Paragraph 2 of Article 64 TRIPS constitutes a limitation of paragraph 1, excluding (at least for a certain period) TRIPS from non-violation and situation complaints. In the following, the concepts of both remedies are explained in general terms (see 3.2.1, 3.2.2), before turning to the controversial issue of their application to TRIPS (see 3.2.3).

#### 3.2.1 Non-violation complaints, Article XXIII:1 (b) of the GATT

Like under violation complaints, the cause of action in this context is the nullification or the impairment of benefits accruing to a Member under a covered agreement. Like under violation complaints, these benefits consist of a competitive relationship between domestic and imported products;<sup>114</sup> and like under violation complaints, nullification or impairment is caused by upsetting the competitive relationship between domestic and imported products.

The difference between the two remedies is that, under violation complaints, the competitive relationship is upset through the violation by one Member of a WTO obligation, whereas under non-violation complaints, this competitive relationship is upset through WTO-consistent action on the part of one Member, rendering the results of certain market access concessions made by that Member less beneficial for other Members.<sup>115</sup> Non-violation complaints are perceived as introducing the

<sup>114</sup> See v. Bogdandy, *The Non-Violation Procedure of Article XXIII:2 of GATT: Its Operational Rationale*, in: 26 *Journal of World Trade* 1992, 95 (98): “A benefit is a competitive relationship between a foreign and a domestic product, established by the binding of the relevant tariff position.”

<sup>115</sup> See above, Section 1. Cottier/Nadakavukaren Schefer, p. 161, observe that WTO-consistent action giving rise to non-violation may consist of action as well as of non-action (non-kept promise). For the former, these authors cite the Panel in the *Australian Subsidy on Ammonium Sulphate* case (BISD II/188, adopted 3.3.1955); for the latter they refer to the panel in the *German Import Duties on Starch* case (BISD 3S/77, 1955). The same authors (on p. 160, quoting Petersmann) note that, even though the language used in the non-violation provisions (Article 26:1 of the DSU, Article XXIII:1(b) of the GATT: “any benefit accruing to it directly or indirectly”) is broad and could theoretically cover the impairment of a multitude of various benefits, GATT panels have in practice limited non-violation complaints to market access related benefits expected from tariff

notion of “equity” to international trade relations in goods.<sup>116</sup> It is considered a valid cause of action if one Member by some purely domestic measure frustrates the legitimate expectations of other Members as to the competitive advantages their products can draw from a negotiated tariff concession. However, such legitimate expectations may not be invoked if the complainant could *anticipate*, at the time of negotiating the concession, the possible adoption of future domestic measures by the respondent that would cancel out the complainant’s competitive advantage resulting from the negotiated concession.<sup>117</sup> This requirement serves the purpose of ensuring that non-violation complaints are actually used in case of the frustration of legitimate expectations and not merely on grounds of a negative economic development.<sup>118</sup>

Under the DSU, non-violation complaints are specifically dealt with in Article 26:1. According to this provision, non-violation complaints differ from violation complaints in three crucial respects:

a) The burden of proof (Article 26:1 (a) of the DSU)

Under violation complaints the complainant, having demonstrated an infringement of a WTO obligation on the part of the respondent, may take advantage of the *prima facie* presumption of nullification or impairment as stipulated in Article 3:8. DSU (see above). With respect to non-violation, Article 26:1 (a) requires that

“the complaining party shall present a detailed justification in support of any complaint relating to a measure which does not conflict with the relevant covered agreement;”

This means that, as opposed to violation complaints, the nullification or impairment (of benefits) itself has to be shown by the complainant.<sup>119</sup> There is no *prima*

concessions in the context of Article II GATT. In other words, non-violation typically comes into play when the negotiated balance of tariff concessions between Members is upset by one Member’s domestic measures, as confirmed by the Appellate Body in *India – Patent Protection*, paragraphs 36–42. For a detailed survey of GATT case law on non-violation complaints, see Petersmann, pp. 150 ff.

<sup>116</sup> According to Cottier/Nadakavukaren Schefer, p. 151, the introduction to international trade relations of non-violation complaints as an expression of equity (protection of legitimate expectations) was necessitated by two factors: First, trade agreements of the 1920s were exclusively concerned with tariff reductions and quantitative restrictions and did not address domestic measures such as taxes, subsidies and technical regulations, which could thus easily be employed to undermine binding tariff concessions. Second, legal positivism prevailing before World War II rendered impossible any attempts to integrate equity into international trade law: states could do anything which was not expressly ruled out in the text of an agreement, even if such action frustrated other parties’ legitimate expectations as to the competitive situation of their products in foreign markets. Since the frustration of legitimate expectations could thus not be addressed as a violation of international law, a specific remedy for state action that did not violate the law had to be introduced.

<sup>117</sup> This qualification has been emphasized by a number of GATT panels, see Cottier/Nadakavukaren Schefer, p. 162, quoting the *Australian Ammonium Sulphate* case.

<sup>118</sup> Cottier/Nadakavukaren Schefer, p. 163. The same authors note on p. 160 that non-violation complaints are a means of protecting a balanced competitive relationship, but never a Member’s expectation of a concrete amount of trade flows.

<sup>119</sup> *Idem* (p. 162), quoting, *inter alia*, the panel in *Japan – Trade in Semi-Conductors*, BISD 35S/116 (1989).

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*facie* presumption to assist him in this task as under violation complaints (see Article 3:8 DSU). On the contrary, it is the complaining Member itself that has to set up the *prima facie* presumption of nullification or impairment. In order to do so, it is not sufficient for the complainant to merely assert a frustration of legitimate expectations. On the contrary, it must provide detailed reasoning as to why the disputed action on the part of the respondent has come unexpectedly.<sup>120</sup> It is only after this presumption of nullification or impairment has been successfully established by the complainant that the respondent has to take action, i.e. rebut the presumption by showing that the measure at issue was in fact foreseeable.

#### b) The available remedies (Article 26:1 (b) of the DSU)

Under violation complaints Article 22:1 DSU provides for the obligation of the respondent to withdraw the illegal measure. With respect to non-violation complaints, on the other hand, Article 26.1 (b) stipulates:

“where a measure has been found to nullify or impair benefits under, or impede the attainment of objectives, of the relevant covered agreement without violation thereof, there is no obligation to withdraw the measure. However, in such cases, the panel or the Appellate Body shall recommend that the Member concerned make a mutually satisfactory adjustment;”

This means that the remedies available under non-violation complaints are limited to the negotiation of a mutually satisfactory compensation or, in case this proves impossible, to the right of the complainant to ask authorization from the DSB to suspend the application to the respondent of concessions under the WTO agreements. Contrary to violation complaints, the respondent is under no obligation to withdraw the measure.

#### c) The final character of compensation (Article 26:1 (d) of the DSU)

In the case of violation complaints, Article 22:1 of the DSU provides that the withdrawal of the (WTO-inconsistent) measure at issue should normally be given priority over the other available remedies. This means that compensation or the suspension of concessions are only temporary measures.<sup>121</sup> Since under non-violation complaints, the respondent is not obliged to withdraw the (WTO-consistent) measure (see above), Article 26:1 (d) of the DSU provides that

<sup>120</sup> See the 1990 panel report on *US Restrictions on Importation of Sugar and Sugar-Containing Products Applied Under the 1955 Waiver and Under the Headnote to the Schedule of Tariff Concessions*, BISD 37S, para. 5.21: “A complaint under Article XXIII:1(b) must therefore be supported by a justification that goes beyond a mere characterization of the measure at issue as inconsistent with the General Agreement”, quoted by Cottier/Nadakavukaren Schefer, p. 159. However, the same authors point to the fact that not all GATT panels have always been equally strict: “While in some cases the panels set out an extensive account of why the complainant would reasonably have expected an adherence to the status quo, in others the panels seem almost to assume a nullification of the benefits by the mere action of the respondent.”

<sup>121</sup> Article 22.1 of the DSU provides: “Compensation and the suspension of concessions or other obligations are temporary measures available in the event that the recommendations and rulings are not implemented within a reasonable period of time. However, neither compensation nor the suspension of concessions or other obligations is preferred to full implementation of a recommendation to bring a measure into conformity with the covered agreements. Compensation is voluntary and, if granted, shall be consistent with the covered agreements.”

mutually agreed compensation may constitute a *final* measure for the settlement of disputes.

### 3.2.2 Situation complaints, Article XXIII:1 (c) of the GATT

This remedy (for the text of the provision, see above) has rarely been argued and has never constituted the basis of a decision throughout the entire GATT 1947 and WTO history of dispute settlement. This has led to the observation that situation complaints “seem to have fallen into disuse.”<sup>122</sup>

The principal reason why neither the GATT Contracting Parties nor WTO Members have relied on this remedy is its impracticability. According to Article 26.2 of the DSU, panel reports based on a situation complaint may only be adopted by consensus, which would require the approval by the responding Member.

In addition, this complaint may only be invoked if neither violation nor non-violation complaints apply, as indicated by the language employed in the same provision.<sup>123</sup> It appears difficult to define the exact scope of application of such remedy. It has been observed that situation complaints refer to a general depression, bringing with it the collapse of commodity prices, high unemployment, etc.<sup>124</sup> Since a given Member cannot be held responsible for a general economic slowdown, situation complaints may be invoked against a given Member only if that Member could have prevented the economic crisis from arising in the first place, but failed to take the necessary measures.<sup>125</sup> In addition to that, the complaining Member would have to show that it could reasonably expect the respondent to apply those measures.

The application of these requirements in practice would be likely to cause considerable problems with respect to legal certainty. A panel would have to assess whether the complainant could reasonably have expected the respondent to take concrete measures to prevent a certain situation from arising. In this context, there is no agreement between WTO Members concerning any criteria for government intervention.<sup>126</sup>

For these reasons, it appears more than doubtful that situation complaints will become more relevant in the future.<sup>127</sup>

<sup>122</sup> Petersmann, p. 74, welcomes this development, considering the unclear concept behind the notion of “situation” complaints.

<sup>123</sup> Article 26.2 of the DSU reads in relevant part: “Where the provisions of paragraph 1(c) of Article XXIII of GATT 1994 are applicable to a covered agreement, a panel may only make rulings and recommendations where a party considers that any benefit accruing to it directly or indirectly under the relevant covered agreement is being nullified or impaired or the attainment of any objective of that Agreement is being impeded as a result of the existence of any situation other than those to which the provisions of paragraphs 1(a) and 1(b) of Article XXIII of GATT 1994 are applicable.” (emphasis added).

<sup>124</sup> See Petersmann, above, Section 1. For the following, see Roessler, p. 139.

<sup>125</sup> Roessler, noting that in case the crisis is brought about by the *application* of a measure (as opposed to the *failure* to apply a measure, see above), recourse to “situation” complaints would not be necessary, because this case would already be covered by non-violation complaints (Article XXIII:1(b) refers explicitly to “the application . . . of any measure . . .”).

<sup>126</sup> Ibid.

<sup>127</sup> Considering their limited relevance, situation complaints will not be dealt with separately in this book. In the following, references to non-violation complaints will equally cover situation complaints.

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#### 3.2.3 Are non-violation complaints applicable in the TRIPS context?

Non-violation complaints as outlined above have traditionally applied in the GATT context. If applicable in the TRIPS context, non-violation complaints could be brought against another Member's domestic measures as allegedly depriving the market access advantages that right holders could reasonably expect as a result of the Uruguay Round negotiations on TRIPS. For instance, the recourse by Member countries to price controls, particularly in the area of pharmaceutical products, could be considered as impairing marketing expectations on the part of foreign patent holders.<sup>128</sup>

**3.2.3.1 Interpretation of the language in Article 64 TRIPS.** During the Uruguay Round negotiations, delegations were split over the question whether non-violation complaints should also apply to TRIPS (see Section 2.2 above). This division of opinions persisting, the final text of Article 64 paragraphs 2 and 3 appears to accommodate both views, due to its vague language. Recall that these provisions read as follows:

“2. Subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 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.

3. During the time period referred to in paragraph 2, the Council for TRIPS shall examine the scope and modalities for complaints of the type provided for under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 made pursuant to this Agreement, and submit its recommendations to the Ministerial Conference for approval. Any decision of the Ministerial Conference to approve such recommendations or to extend the period in paragraph 2 shall be made only by consensus, and approved recommendations shall be effective for all Members without further formal acceptance process.”

As made clear by paragraph 2, non-violation complaints did not apply to TRIPS for a period of five years from the date of entry into force of the WTO Agreement, i.e., until 1 January 2000. During this period, the Council for TRIPS was supposed to make recommendations to the Ministerial Conference with respect to the scope and modalities for non-violation complaints under TRIPS (paragraph 3). However, Members of the Council for TRIPS have so far been unable to make such recommendations. Under this new scenario, which was not foreseen by the drafters of TRIPS, the meaning of paragraph 3 and its relationship with paragraph 2 is not entirely clear.<sup>129</sup> Paragraph 2 seems to imply that once the five-year moratorium on dispute settlement has lapsed, non-violation complaints should automatically apply. This seems to be supported by the requirement under paragraph 3 that the dispute settlement moratorium may only be extended by consensus.

<sup>128</sup> For more examples of possible non-violation complaints and their implications for developing countries see below, under Section 7.

<sup>129</sup> See, for instance, Note by the WTO Secretariat, *Non-Violation Complaints and the TRIPS Agreement*, IP/C/W/124 of 28 January 1999; see also Summary Note by the WTO Secretariat, *Non-Violation Complaints and Situation Complaints* IP/C/W/349 of 29 June 2002.

Such view (i.e., an automatic applicability of non-violation complaints after 1 January 2000) was supported by a number of delegations,<sup>130</sup> arguing that the five-year delay in the application of non-violation complaints already constituted a concession, and that any further delay would upset the equilibrium of concessions reached at the Uruguay Round negotiations.<sup>131</sup>

On the other hand, paragraph 3 of Article 64 makes the decision whether or not to admit non-violation complaints in the TRIPS context contingent upon a unanimous approval by the Ministerial Conference (based on a recommendation by the Council for TRIPS). The view that the lapse of time indicated in paragraph 2 automatically triggers the applicability of non-violation complaints arguably disregards this consensus requirement under paragraph 3.

Thus, there is a contradiction between the consensus requirement concerning the extension of the dispute settlement moratorium on the one hand, and the consensus requirement with respect to the introduction of non-violation complaints on the other.

This contradiction is due to the above-mentioned failure by Members to reach agreement with respect to the scope and modalities of non-violation complaints under TRIPS. Article 64 was drafted under the presumption that Members would reach agreement before the lapse of the dispute moratorium provided under paragraph 2. It is against this background that the Appellate Body in a 1997 report stated that:

“Whether or not ‘non-violation’ complaints should be available for disputes under the *TRIPS Agreement* is a matter that remains to be determined by the Council for Trade-Related Aspects of Intellectual Property (the ‘Council for TRIPS’) pursuant to Article 64.3 of the *TRIPS Agreement*. It is *not* a matter to be resolved through interpretation by panels or by the Appellate Body.”<sup>132</sup>

The Appellate Body did not address the question of what would happen if Members in the Council for TRIPS failed to reach consensus. However, its insistence that the issue of non-violation be decided by the Members (in other words, through unanimity) arguably supports the view that non-violation complaints should not be admitted automatically in case the dispute settlement moratorium is not extended by consensus.

Such view would also be in line with the expression in the literature of serious concerns about the basic compatibility of non-violation complaints with TRIPS.<sup>133</sup> According to these critics, non-violation complaints were intended for the typical GATT situation of one Member frustrating, by domestic measures, the expectations of other Members concerning the competitive relationship between domestic and imported products as laid down in Members’ tariff concessions. The situation

<sup>130</sup> See in particular Non-Paper from the United States of America, *Non-Violation Nullification or Impairment under the TRIPS Agreement*, JOB (99)/4439 of 26 July 1999.

<sup>131</sup> *Ibid.*, page 3.

<sup>132</sup> *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products*, Report of the Appellate Body of 19 December 1997, WTO document WT/DS50/AB/R, at para. 42 (emphasis in the original).

<sup>133</sup> See Roessler, p. 135 et seq.; Abbott, *WTO Dispute Settlement*, p. 434; Petersmann, p. 149 et seq. The following is largely based on these contributions.



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under TRIPS, it is argued, is entirely different and may therefore not serve as a model. As opposed to the GATT, where non-violation complaints are meant to protect legitimate expectations (of competitive marketing conditions) that go beyond the pure respect of the GATT obligations, it has been observed that TRIPS does not protect any expectations that go beyond the respect of the substantive intellectual property standards. The main purpose of TRIPS is to promote certain public policy objectives (such as the transfer of technology, see Article 7) through effective intellectual property protection. This objective is entirely met by the respect of the legal obligations as stipulated in the substantive provisions. The non-respect of these obligations is to be addressed through violation complaints. Any further expectations as to the commercial exploitation of these IPRs (i.e., beyond the pure respect of the law) are in no way covered by TRIPS.<sup>134</sup> Such market access benefits, which could be protected through non-violation complaints, accrue under the GATT and the GATS, but not under TRIPS. Applying non-violation to TRIPS in order to protect marketing benefits expected by intellectual property rights holders would thus amount to a transformation of IPRs from negative to positive rights.<sup>135</sup>

Thus, the concept of non-violation is extraneous to IPRs. As a matter of policy, it might therefore be suggested that the incorporation of such concept into an agreement on intellectual property rights would constitute an exceptional move and should have to be agreed upon in express terms. The mere lapse of a delay should not represent a sufficient basis for such a fundamental change in the area of IPRs.

Members would be justified to interpret the language in Article 64 paragraphs 2 and 3 as leaving Members the discretion to reject the applicability of non-violation complaints to TRIPS. Yet there is substantial uncertainty regarding how the Appellate Body will interpret the relationship between Article 64.2 and 64.3 in the event Members are unable to reach a consensus on “scope and modalities”.

**3.2.3.2 Later developments at Doha and Cancun.** Having interpreted the language of Article 64, paragraphs 2 and 3, it appears useful to highlight some recent developments and their possible impact on the treatment of non-violation complaints under TRIPS.

Members of the Council for TRIPS were unable to agree on any recommendations with respect to non-violation complaints before the mandated deadline of 1 January 2000 (see Article 64.3). However, at the Doha Ministerial Meeting in 2001, WTO Members extended this deadline as well as the express moratorium on non-violation complaints. They decided that:

“The TRIPS Council is directed to continue its examination of the scope and modalities for complaints of the types provided for under subparagraphs 1 (b)

<sup>134</sup> Roessler, p. 136, illustrates this with the following example: authors may legitimately rely on protection against *illicit copying* of their books in the territory of WTO Members. However, the TRIPS Agreement provides for no *marketing rights* with respect to the protected books, the sale of which could be prohibited under other laws (for example, for public interest reasons).

<sup>135</sup> Abbott, *WTO Dispute Settlement*, p. 434. “Negative” right in this context refers to the typical function of intellectual property rights to prohibit the unauthorized use of the protected products. “Positive” right consequently refers to an extension of the protected right beyond that prohibition, covering claims regarding business opportunities.

and 1 (c) of Article XXIII of GATT 1994 and make recommendations to the Fifth Session of the Ministerial Conference. It is agreed that, in the meantime, Members will not initiate such complaints under the TRIPS Agreement.”<sup>136</sup>

Despite this extension, Members in the TRIPS Council were not able to agree on any recommendations to the Fifth Ministerial Conference at Cancun in September 2003. In addition, there is no express extension of the moratorium on non-violation complaints for the time after the Cancun Ministerial. Therefore, the uncertainty caused by contradictory consensus requirements (see above) persists.<sup>137</sup>

Since there is no consensus to extend the moratorium, it could be argued that it has expired with the end of the Cancun Ministerial Conference, so that non-violation complaints would be admissible since September 2003.

However, such approach would neglect another possible interpretation of the language of Article 64; i.e., that a decision to admit non-violation complaints in the TRIPS context is contingent upon a consensus-based decision by the Ministerial Conference (Article 64.3). The fact that the moratorium as extended in the Doha Declaration (see above) expressly covers only the period up to the Cancun Ministerial Conference did not alter this requirement. When drafting the Doha Declaration, delegations acted under the assumption that by the time of the Fifth Ministerial Meeting, Members would be able to come to a consensus agreement with respect to the scope and modalities of non-violation complaints. The current situation with contradictory consensus requirements was not altered by Members at the time of the Doha Ministerial. Given the important concerns that some Members have had with respect to such complaints, neither the reference to the Fifth Ministerial Conference nor the failure to renew the express moratorium should be interpreted as implicitly waiving Members' sovereign right to reject the applicability of non-violation in the TRIPS context. Had there been a consensus at Doha that after the Cancun meeting, non-violation should apply, Members should have provided so in express terms. It may be argued that any other interpretation would not only disregard Members' sovereignty; it would equally reduce the consensus requirement in Article 64.3 to redundancy, which is contrary to the principle of effectiveness of treaty interpretation.<sup>138</sup>

<sup>136</sup> See Decision on Implementation-Related Issues and Concerns, WT/MIN(01)/W/10, at para. 11.1.

<sup>137</sup> Note that after completion of this volume, the WTO General Council decided to extend the dispute settlement moratorium with respect to non-violation complaints under TRIPS up to the Sixth WTO Ministerial Conference in December 2005. See *Decision Adopted by the General Council on 1 August 2004*, WT/L/579 of 2 August 2004, para. 1.h.

<sup>138</sup> This principle is embodied in Article 31 of the Vienna Convention on the Law of Treaties. In the terms employed by the Appellate Body: “One of the corollaries of the ‘general rule of interpretation’ in the Vienna Convention is that interpretation must give meaning and effect to all the terms of the treaty. An interpreter is not free to adopt a reading that would result in reducing whole clauses or paragraphs of a treaty to redundancy or inutility.” (See *United States-Standards for Reformulated and Conventional Gasoline*, Report of the Appellate Body, WT/DS2/AB/R, 29 April 1996, p. 23.) For an analysis of the rules on treaty interpretation in the context of the TRIPS Agreement, see Annex 1 to this Chapter.

## 5. Relationship with other international instruments

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This being said, there is nevertheless a substantial risk<sup>139</sup> that with the failure by Members to expressly extend the Doha moratorium on non-violation, such complaints are now more likely to be initiated. On the particular implications for developing countries, see below (Section 7).

## 4. WTO jurisprudence

Apart from the case *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products*,<sup>140</sup> there has been no WTO jurisprudence specifically concerning Article 64 as such.

## 5. Relationship with other international instruments

### 5.1 WTO Agreements

According to Appendix 1 of the DSU, the DSU applies to all WTO multilateral agreements (i.e., Annexes 1A through 1C to the Marrakesh Agreement). As to the plurilateral agreements, (i.e., Annex 4 to the Marrakesh Agreement), the applicability of the DSU shall be subject to the adoption of a decision by the parties to each plurilateral agreement setting out the terms for the application of the DSU to the individual agreement, including any special or additional rules or procedures.

### 5.2 Other international instruments

#### 5.2.1 The WIPO-administered conventions

The state – state dispute settlement system provided by the WIPO-administered intellectual property protection treaties has in the past proved less efficient than the DSU.<sup>141</sup> There is a WIPO Draft Treaty on the Settlement of Disputes between States in the Field of Intellectual Property.<sup>142</sup> The utility of such treaty is rather controversial. Some states have insisted that, after the entry into force of TRIPS, there would be no further need to pursue the creation of a WIPO dispute settlement system.<sup>143</sup> On the other hand, it may be argued that the establishment of such system in parallel to the WTO DSU would bring certain, particularly political, advantages.<sup>144</sup>

<sup>139</sup> Abbott, *Non-Violation Nullification or Impairment Causes of Action under the TRIPS Agreement and the Fifth Ministerial Conference: A Warning and Reminder*, Quaker United Nations Office, Occasional Paper 11, Geneva, July 2003, p. 1 [hereinafter Abbott, *A Warning*].

<sup>140</sup> Report of the Appellate Body of 19 December 1997, WTO document WT/DS50/AB/R.

<sup>141</sup> See Section 2.1, above.

<sup>142</sup> WIPO document SD/CE/V/2 of 8 April 1993 as cited by Abbott, *WTO Dispute Settlement*, p. 434, fn. 80.

<sup>143</sup> Abbott, *WTO Dispute Settlement*, p. 435, referring to the U.S. delegation to the WIPO Committee of Experts.

<sup>144</sup> *Ibid.*, referring to the possible preference by some states of a dispute settlement system not linked to trade sanctions. The same author also points out the fact that not all intellectual property rights-related issues can be brought before a WTO panel. Finally, he also notes that not all parties to international intellectual property rights conventions are WTO Members.

In case the draft treaty should materialize, important issues as to the relationship between the two dispute settlement systems would arise. The three following main problems have been highlighted, namely:

- a) Once either the WTO or WIPO have been chosen by the complainant as the forum for dispute settlement, would the other organization be excluded to pronounce itself on the same subject matter? If so, would such exclusion apply only during the actual proceedings or permanently?<sup>145</sup>
- b) How does one forum's decisions influence the work of the other dispute settlement body? Should they be legally binding, serve as an orientation or be irrelevant?<sup>146</sup>
- c) If both forums pronounced themselves on the same subject-matter and came to opposing conclusions, what consequences would this entail for the relationship between intellectual property rights and trade liberalization?

## 6. New developments

### 6.1 National laws

### 6.2 International instruments

Possible ways of interpreting the Doha Declaration with respect to non-violation complaints are analyzed in Section 3, above. With respect to the attempts to reform the DSU provisions in general, see Section 6.4, below.

### 6.3 Regional and bilateral contexts

#### 6.3.1 Regional

**6.3.1.1 The status of DSB decisions in the EC legal order.** In a number of highly controversial cases, the European Court of Justice (ECJ) has decided that, even though the EC is legally bound by the WTO agreements and the decisions of the DSB, neither the EU member states nor EU citizens may invoke WTO rules or DSB decisions to challenge the validity of EC legislative acts.<sup>147</sup> This approach has been confronted with strong criticism among legal scholars.<sup>148</sup>

<sup>145</sup> Idem, p. 436, supporting a proposal submitted by the EC to the WIPO Committee of Experts, according to which the election of one organization as dispute settlement forum should foreclose recourse to the other one.

<sup>146</sup> Ibid., advocating the accordance of "great weight" to decisions of the other respective dispute settlement organ, but refusing a legally binding effect.

<sup>147</sup> ECJ – *Portugal/Council*, C-149/96 – European Court Reports (ECR) 1999, I-8395 [hereinafter *Portugal/Council*]; ECJ – *OGT Fruchthandelsgesellschaft mbH/Hauptzollamt Hamburg-St. Annen*, C-307/99 – ECR 2001, I-3159; specifically for the TRIPS Agreement, see ECJ – *Dior and Layher*, joint cases C-300/98 and C-392/98 – ECR 2000, I-11307, and ECJ – *Schieving-Nijstad vof and others/Robert Groeneveld*, C-89/99 – ECR 2001, I-5851. All decisions are also available on the ECJ's website at <<http://curia.eu.int>>.

<sup>148</sup> For an overview of the different opinions see Cottier/Nadakavukaren Schefer, *The Relationship between World Trade Organization Law, National and Regional Law*, in: *Journal of International Economic Law* 1998, 91ff.; Peers, *Fundamental Right or Political Whim? WTO Law and the*

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The ECJ advances two reasons for its denial of direct effect of WTO law in the EC's legal order: First, the necessity to maintain the EC's discretionary power to negotiate compensation instead of immediately implementing the DSB rulings.<sup>149</sup> Second, the fact that neither the USA, nor Japan, have so far accorded direct effect to WTO law and DSB decisions in their domestic legal systems would lead to an imbalance in the implementation of WTO law.<sup>150</sup>

However, the ECJ does admit two exceptions under which WTO rules may be used to challenge the validity of EC legislation:<sup>151</sup>

- where the contested EC legislative act is intended to implement a WTO obligation;
- or where the EC act refers to specific WTO provisions.

In those cases, the EC has waived its discretion and made a commitment to implement its WTO obligations.

In addition to that, there is a third possibility of WTO law influencing EC law. The ECJ has consistently stressed the requirement to interpret EC legal measures and national legislation as far as possible in the light of GATT/WTO rules (obligation of "consistent interpretation").<sup>152</sup>

Finally, it can be observed that it is easier for an individual EU citizen to challenge the measures of third states on grounds of alleged WTO-inconsistency than to challenge measures of the EC. EC Council Regulation No. 3286/94,<sup>153</sup> as modified by Regulation No. 356/95<sup>154</sup> foresees the possibility for individuals, companies, or EU member states to request the EC Commission to initiate WTO dispute

*European Court of Justice*, in: de Burca/Scott (ed.), *The EU and the WTO*, 2001, 111–130 (footnotes 1, 14, 15); Rosas, Case C-149/96, *Portugal v. Council. Judgment of the Full Court of 23 November 1999*, *nyr.*, *Common Market Law Review* 2000, 798 et seq., especially footnotes 11 and 12.

<sup>149</sup> The (merely temporary) option of compensation is authorized under Article 22 DSU, with the purpose of avoiding retaliation when the infringing measure cannot be withdrawn within the foreseen time frame. Note that this gives a WTO Member the possibility to maintain, on a temporary basis, a WTO-inconsistent measure. If the ECJ permitted WTO rules to be directly enforceable before national courts throughout the EU, affected individuals or EU member states could obligate the EC to immediately withdraw its WTO-inconsistent measures. Thus, the temporary possibility offered by Article 22 DSU would be void. The radical changes direct effect would introduce may be illustrated by the dispute on the EC's import regime of bananas: if the WTO decisions as to the inconsistency of this regime had been directly enforceable before national courts, European banana importers would have been able to challenge successfully the relevant EC regulations before their domestic courts and the ECJ. This would have been a way to avoid the lengthy legal battle over bananas before the WTO.

<sup>150</sup> While the EC could be forced to immediately respect WTO obligations (see above), both the USA and Japan would not be exposed to the same pressure.

<sup>151</sup> See ECJ – *Fediol*, C-70/87 – ECR 1989, 1781 and ECJ – *Nakajima*, C-69/89 – ECR 1991, I-2069. Both decisions concerned the GATT 1947, but the ECJ confirmed their applicability to the new WTO rules in its *Portugal/Council* judgement (see above).

<sup>152</sup> For the GATT 1947: ECJ – *Interfoods*, C-92/71 – ECR 1972, 231; for the TRIPS Agreement: ECJ – *Hermès International*, C-53/96 – ECR 1998, I-3603, at para. 28; ECJ – *Schieving-Nijstad vof and others/Robert Groeneveld*, C-89/99 – ECR 2001, I-5851, at paras 35, 36, 55. The ECJ employs a balancing test concerning the requirement of liberal trade on the one hand and intellectual property protection on the other.

<sup>153</sup> Official Journal of the European Communities 1994, No. L 349, p. 71 ff.

<sup>154</sup> Official Journal of the European Communities 1995, No. L 41, p. 3.

settlement proceedings against third countries whose trade practices violate WTO rules. The Commission has the discretionary power to decide whether the request should be granted. So far, such requests have always been treated favourably.<sup>155</sup>

### 6.3.2 Bilateral

A recent trend in bilateral and regional free trade agreements has been to declare non-violation complaints applicable to the respective provisions on IPRs. In most cases, these non-violation clauses do not appear in the intellectual property chapter of the agreement, but in a separate dispute settlement chapter.<sup>156</sup>

### 6.4 Proposals for review

In a 1994 *Decision on the Application and Review of the Understanding on Rules and Procedures Governing the Settlement of Disputes*,<sup>157</sup> Ministers agreed on a full review of WTO dispute settlement rules and procedures by 1 January 1999. Although the Dispute Settlement Body in special sessions started this review in 1997 and extended the deadline until 31 July 1999,<sup>158</sup> Members could not agree on possible amendments of the DSU.<sup>159</sup>

On the same issue, the 2001 Doha Declaration provided:

“We agree to negotiations on improvements and clarifications of the Dispute Settlement Understanding. The negotiations should be based on the work done thus far as well as any additional proposals by Members, and aim to agree on improvements and clarifications not later than May 2003, at which time we will take steps to ensure that the results enter into force as soon as possible thereafter.”<sup>160</sup>

However, the May 2003 deadline also passed without Members' coming to an agreement. On 24 July 2003, the General Council acknowledged that the DSB special session needed more time to conclude its work and extended the deadline for the special session until May 2004.<sup>161</sup>

## 7. Comments, including economic and social implications

### 7.1 Non-violation complaints

The legal analysis of Article 64, paragraphs 2 and 3 (see Section 3, above) has led to the conclusion that the current situation concerning non-violation complaints

<sup>155</sup> See Nowak, *Der Rechtsschutz von Beschwerdeführern im EG-Wettbewerbs- und EG-Außenhandelsrecht*, in: Europäische Zeitschrift für Wirtschaftsrecht 15/2000, 453 (456).

<sup>156</sup> See, for instance, Annex 22.2 of the Chile – USA FTA; and Annex 20.2 of the Central American Free Trade Agreement (CAFTA). For an overview of non-violation complaints at the regional and bilateral levels, see South Centre/CIEL IP Quarterly Update: First Quarter 2004. *Intellectual Property and Development: Overview of Developments in Multilateral, Plurilateral, and Bilateral Fora*, available at <<http://www.ciel.org/Publications/IP.Update.Spring04.pdf>>. For a detailed analysis of the USA – Chile FTA, see Roffe 2004.

<sup>157</sup> See at <[http://www.wto.org/english/docs\\_e/legal\\_e/53-ddsu.pdf](http://www.wto.org/english/docs_e/legal_e/53-ddsu.pdf)>.

<sup>158</sup> See the DSB decision WT/DSB/M/52 of December 1998.

<sup>159</sup> See at <[http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_e.htm#negotiations](http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm#negotiations)>.

<sup>160</sup> See Ministerial Declaration of 14 November 2001, WT/MIN(01)/DEC/W/1, para. 30.

<sup>161</sup> See <[http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_e.htm#negotiations](http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm#negotiations)>.

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under TRIPS is unclear. This is due to contradictory consensus requirements with respect to both the extension of the moratorium and the introduction of non-violation complaints. Under this scenario, there is a substantial risk that some Members will attempt to resort to non-violation complaints in the future, based on the assertion that with the lapse of the express moratorium, such complaints have generally become admissible.<sup>162</sup>

The implications for developing countries would be manifold. Before going into some details, it is important to emphasize that from a legal point of view, the risk of a developing country being exposed to a successful claim of non-violation before the WTO is currently very low.<sup>163</sup> It is highly unlikely that the Appellate Body will depart from its usual strong reliance on the express text of the pertinent agreement<sup>164</sup> for the sake of enforcing some very vague expectations that go well beyond the express TRIPS obligations.

This being said, the fact that developing country Members might be forced to defend non-violation claims constitutes a considerable challenge, taking account of the legal expenses caused by such action. Even more importantly, the uncertainty as to the outcome inherent in any legal action might have a chilling effect on developing countries' domestic legislative activities. Members bringing non-violation cases might argue that certain public policies restricting market access of IPR-protected products deprive right holders of certain expectations arising from the TRIPS substantive rules on IPRs (see Section 3 above). This can be illustrated through several examples.<sup>165</sup> For instance, the recourse by developing countries to price controls, particularly in the area of pharmaceutical products, could be considered as impairing marketing expectations on the part of foreign patent holders.<sup>166</sup> Also, the use by governments of other TRIPS flexibilities such as the general exceptions clause to patent rights (Article 30), the granting of compulsory licenses (Article 31), fair use exceptions to copyright, or even the narrow design of patentability criteria could be the target of non-violation complaints. In addition, although TRIPS grants considerable discretion with respect to the enforcement of IPRs, Members could seek to challenge another Member's choice of remedies as not being sufficiently stringent. Finally, public policy choices pursued through internal taxes, packaging and labelling requirements, consumer protection rules and environmental standards may affect the profitability of IPRs and thus nullify or impair benefits expected from such rights.

<sup>162</sup> Note, however, the 1 August 2004 Decision by the General Council to extend the moratorium until the Sixth Ministerial Conference in December 2005. See above, Section 3 of this chapter.

<sup>163</sup> See Abbott, *A Warning*, p. 3.

<sup>164</sup> For an example of this strong reliance of the express text, see *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products*, AB-1997-5, WT/DS50/AB/R of 19 December 1997.

<sup>165</sup> See Abbott, *A Warning*, p. 2, 3.

<sup>166</sup> See Abbott, *UNCTAD Handbook*, p. 33, who, however, underlines the improbability of such a non-violation complaint to succeed: no Member could reasonably expect price controls not to be used, for they were already in many governments' use at the time of the negotiation of the TRIPS Agreement. In addition, TRIPS does not contain any rules concerning price controls and can thus not create any reasonable expectations that such controls will not be used.

Such restrictions of each Member's right to regulate in the common interest would affect not only developing countries, but should equally be of major concern to developed Members. After all, it was the EC that during the Uruguay Round negotiations expressed doubts about non-violation under TRIPS in view of its market access restrictions in the audio-visual sector (see Section 2.2 above). The negotiated rules in TRIPS on substantive IPRs represent a carefully weighted balance between the interests of private right holders and the public. The admission of non-violation complaints in the TRIPS context would upset this balance to the detriment of those public policy goals, the promotion of which is one of the core objectives of TRIPS.

### 7.2 The issue of cross-retaliation

The fact that the TRIPS disciplines are subject to binding dispute settlement decisions constitutes an important novelty for all WTO Members, but especially for developing countries. As opposed to industrialized Members, developing Members' domestic IPR systems are far less developed, so their adjustment to the TRIPS standards requires a considerably higher effort, not only on the financial side. If Members fail to meet their obligations, they risk being exposed to trade sanctions in the form of suspension of concessions.

The availability of cross-retaliation<sup>167</sup> means that developing countries, when not meeting their TRIPS obligations, may see the withdrawal of concessions in areas essential for their own industries, like the exports of certain goods (textiles, agricultural products). From an industrialized Member's perspective, this is a valuable and powerful tool to ensure developing Members' efforts as to the improvement of their IP protection systems, which, in turn, is essential for the industrialized Members' advanced industries. From a developing (and especially a least-developed) Member's perspective, however, enhanced intellectual property protection might not always represent the optimal (short and medium term) policy choice, as illustrated in several chapters of this book. Thus, developing countries might feel compelled to engage in something they consider contrary to their national interests.

### 7.3 The consequences of the binding force of the WIPO-administered conventions

In addition to that, the incorporation by TRIPS of the most important previous intellectual property conventions<sup>168</sup> automatically obliges developing countries to respect these conventions' disciplines, whether or not they ever adhered to the respective convention itself. In this context, it has been observed that not only the conventions themselves, but equally the related state practice has deliberately

<sup>167</sup> See above, Section 1.

<sup>168</sup> See Article 2(1) as to the Paris Convention, Article 9(1) as to the Berne Convention and Article 35 as to the Treaty on Integrated Circuits. Note, however, that this does not apply to the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations. Those WTO Members that are no parties to this treaty shall not be obligated by its disciplines; see Article 2.2 of TRIPS and Chapter 3 of this book.



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been incorporated into TRIPS.<sup>169</sup> This includes judicial decisions, executive actions and legislative measures.<sup>170</sup> At this point, the question arises whether these judicial interpretations of intellectual property protection, developed in the limited context of mainly industrialized countries, may without any alteration be transposed into the TRIPS context, with the majority of WTO Members being developing countries.<sup>171</sup> It has been observed that not all interpretations given to the WIPO intellectual property conventions by domestic courts in developed countries have necessarily adopted the status of customary international law.<sup>172</sup> In fact, those customary practices of some Members that have never been followed by other Members (e.g., because of their different economic and social preferences) do not bind the latter.<sup>173</sup> Consequently, where a developing country Member's intellectual property legislation or practice is challenged because of an alleged infringement of one of the WIPO intellectual property conventions, that Member should verify whether the complaining party's view can directly be based on the wording of the respective agreement or whether it is merely the result of the interpretation of the issue by a domestic court.

### 7.4 Development-related provisions under the DSU

In order to accommodate some of the concerns developing countries have with respect to WTO dispute settlement, the DSU contains some specific developing/least developed countries provisions:<sup>174</sup>

- Article 3:12 DSU

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

The 1966 Decision provides for expedited dispute settlement procedures as an alternative to the DSU provisions. Since the entry into force of the WTO Agreements, no developing country has had recourse to this 1966 Decision.<sup>175</sup>

<sup>169</sup> See Abbott, *WTO Dispute Settlement*, p. 421/422.

<sup>170</sup> *Ibid.*

<sup>171</sup> See Petersmann, p. 214.

<sup>172</sup> See Abbott, *UNCTAD Handbook*, p. 35.

<sup>173</sup> *Ibid.*

<sup>174</sup> For an overview of those DSU provisions see The South Centre, *Issues Regarding the Review of the WTO Dispute Settlement Mechanism*, Working Papers, Geneva, February 1999, p. 18 *et seq.* [hereinafter The South Centre] and Kongolo, *The WTO Dispute Settlement Mechanism. TRIPS Rulings and the Developing Countries*, in: *The Journal of World Intellectual Property*, vol. 4, March 2001, 257 *et seq.* [hereinafter Kongolo].

<sup>175</sup> See The South Centre, p. 19.

- Article 4:10 DSU

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

It has been observed that there is no possibility of assessing Members' compliance with this rule, because it does not specify what exactly is meant by “special attention”.<sup>176</sup> This provision is thus of declaratory nature and of very limited practical use.<sup>177</sup>

- Article 8:10 DSU

“When a dispute is between a developing country Member and a developed country Member the panel shall, if the developing country Member so requests, include at least one panelist from a developing country Member.”

In the cases *India – Shirts and Blouses*<sup>178</sup> and *Argentina – Textiles*<sup>179</sup> all three panelists were nationals of developing countries.<sup>180</sup>

- Article 12:10 DSU

“In the context of consultations involving a measure taken by a developing country Member, the parties may agree to extend the periods established in paragraphs 7 and 8 of Article 4. If, after the relevant period has elapsed, the consulting parties cannot agree that the consultations have concluded, the Chairman of the DSB shall decide, after consultation with the parties, whether to extend the relevant period and, if so, for how long. In addition, in examining a complaint against a developing country Member, the panel shall accord sufficient time for the developing country Member to prepare and present its argumentation. [...]”

So far, the DSB chairman has never taken a formal decision concerning the extension of consultation periods.<sup>181</sup>

- Article 12:11 DSU

“Where one or more of the parties is a developing country Member, the panel's report shall explicitly indicate the form in which account has been taken of relevant provisions on differential and more-favourable treatment for developing country Members that form part of the covered agreements which have been raised by the developing country Member in the course of the dispute settlement procedures.”

This provision has so far never been expressly referred to in any panel report.<sup>182</sup>

<sup>176</sup> Ibid.

<sup>177</sup> Ibid.

<sup>178</sup> WTO document WT/DS33, report of the panel.

<sup>179</sup> WTO document WT/DS56, report of the panel.

<sup>180</sup> See The South Centre, p. 19.

<sup>181</sup> Ibid., p. 20.

<sup>182</sup> Ibid.

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- Article 21:2 DSU

“Particular attention should be paid to matters affecting the interests of developing country Members with respect to measures which have been subject to dispute settlement.”

Like Article 4.10, this provision is of limited practical use due to the vagueness of the term “particular attention”.

- Article 21:7 DSU

“If the matter is one which has been raised by a developing country Member, the DSB shall consider what further action it might take which would be appropriate to the circumstances.”

Complaining developing country Members have never had recourse to this provision.<sup>183</sup> One of the reasons might be the vagueness of words such as “might” and “appropriate.”

- Article 21:8 DSU

“If the case is one brought by a developing country Member, in considering what appropriate action might be taken, the DSB shall take into account not only the trade coverage of measures complained of, but also their impact on the economy of developing country Members concerned.”

So far, the DSB has never made use of this provision.<sup>184</sup>

- Article 24 DSU

“1. At all stages of the determination of the causes of a dispute and of dispute settlement procedures involving a least-developed country Member, particular consideration shall be given to the special situation of least-developed country Members. In this regard, Members shall exercise due restraint in raising matters under these procedures involving a least-developed country Member. If nullification or impairment is found to result from a measure taken by a least-developed country Member, complaining parties shall exercise due restraint in asking for compensation or seeking authorization to suspend the application of concessions or other obligations pursuant to these procedures.

2. In dispute settlement cases involving a least-developed country Member, where a satisfactory solution has not been found in the course of consultations the Director-General or the Chairman of the DSB shall, upon request by a least-developed country Member offer their good offices, conciliation and mediation with a view to assisting the parties to settle the dispute, before a request for a panel is made. The Director-General or the Chairman of the DSB, in providing the above assistance, may consult any source which either deems appropriate.”

Since no LDC has ever been involved in a WTO dispute, an assessment of this provision is not possible for the time being.

<sup>183</sup> Ibid., p. 21.

<sup>184</sup> Ibid., proposing a careful analysis of the reasons for the “apathy” on the part of developing countries to have recourse to the differential treatment provisions.

- Article 27:2 DSU

“While the Secretariat assists Members in respect of dispute settlement at their request, there may also be a need to provide additional legal advice and assistance in respect of dispute settlement to developing country Members. To this end, the Secretariat shall make available a qualified legal expert from the WTO technical cooperation services to any developing country Member which so requests. This expert shall assist the developing country Member in a manner ensuring the continued impartiality of the Secretariat.”

It has been observed that despite this important support, developing countries are nevertheless inclined to ask for costly legal advice from abroad. WTO legal experts are obliged to keep their impartiality with respect to all the parties to the dispute. It cannot be their objective to argue a case in favour of one of the parties.<sup>185</sup>

### 7.5 General implications of the rules-based system of the DSU

While it is clear that the possibility of enforcing TRIPS disciplines through the DSU constitutes a major challenge for developing countries, there are at the same time possible advantages. The DSU may actually be seen as seeking to put WTO Members on an equal footing despite their very different levels of development and very different economic and political powers. All Members are subject to the same rules. Those rules are, in theory, enforceable against any Member, irrespective of its political or economic power. In the absence of the DSU, the only means available for the settlement of disputes would be traditional diplomatic procedures, with all their possibilities for the exercise of unilateral economic or political pressure. Under the DSU, the only decisive criterion for the outcome of the dispute is the law, which applies equally to every Member. Article 23:2 (a) DSU makes it clear that Members are not allowed to determine unilaterally whether another Member has violated WTO rules. The only way to arrive at this conclusion is through recourse to the DSU procedures (see Article 23:1 of the DSU).

For developing countries, this aspect should not be underestimated. Considering the very different levels of domestic IPR systems, there will certainly be a lot of disagreement between industrialized and developing country Members as to the TRIPS legality of certain domestic legislation. In that case, however, developing countries are no longer confronted with a unilateral assessment of their legislation by their developed country counterparts. WTO panels and the Appellate Body are construed as impartial adjudicative bodies (see Article 8:2 of the DSU for the panels; Article 17:3 for the AB). Their obligation to base their findings only on questions of law (as opposed to political considerations) contributes to the predictability and transparency of the dispute settlement system.

There are a number of examples in the GATT/WTO dispute settlement history of developing countries successfully defending their WTO-compatible interests against powerful global players. In the *Tuna-Dolphin I* dispute,<sup>186</sup> Mexico successfully challenged U.S. legislation banning the imports of tuna caught with certain fishing techniques. The panel held that unilateral action with extraterritorial

<sup>185</sup> Ibid., p. 23.

<sup>186</sup> BISD 39S/155-205.

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effects violated GATT rules and was generally not justifiable under Article XX GATT. Under the old GATT, it was possible for the losing party to block the adoption of the report. With the introduction of the quasi-automatic adoption of panel reports, such blocking would no longer be possible. Thus, the further “legalization” of dispute settlement procedures under the new DSU cannot necessarily be considered as opposed to developing countries’ interests.

In the *Shrimps-Turtle* dispute, India, Malaysia, Pakistan and Thailand brought a complaint against a U.S. law prohibiting the importation of shrimp caught with a certain fishing technique. The Appellate Body<sup>187</sup> considered the application by the USA of that domestic law as constituting an “unjustifiable discrimination” under Article XX GATT 1994. The reason for this assessment was the failure on the part of the USA to enter into serious multilateral negotiations to settle disagreements over fishing techniques before imposing unilateral action on other WTO Members.<sup>188</sup> Since this case was brought under the new DSU, the USA was unable to block the adoption of the report.

### 7.6 Some shortcomings of the DSU with respect to developing countries

#### 7.6.1 The limited power to make use of retaliation

Even the legalistic approach to dispute settlement under the DSU cannot cancel out the factual differences in economic power among WTO Members. This becomes most apparent in the phase of implementation of DSB rulings, as illustrated in the *bananas* case.<sup>189</sup> Pursuant to the EC’s failure to bring its banana regime into WTO-conformity, Ecuador, as the first developing country in GATT/WTO history, requested the authorization by the DSB to suspend concessions to a developed WTO Member, the EC. This request was granted by the DSB, as recommended by an arbitration panel, in the amount of US\$ 201.6 million.<sup>190</sup> However, in the course of the proceedings, Ecuador had to recognize that the adverse economic effects of an actual suspension of concessions would rather be felt by Ecuador itself than by the EC.<sup>191</sup> This was so for the following reasons:

In the goods area, higher tariff barriers would prevent EC products from supplying the Ecuadorian market, which was highly dependent on them. Thus, the economic crisis would be exacerbated. On the other hand, a closing of the relatively small Ecuadorian market would hardly be felt by European companies,

<sup>187</sup> See *US – Import Prohibition of Certain Shrimp and Shrimp Products*, Report of the Appellate Body of 12 October 1998, WTO document WT/DS58/AB/R.

<sup>188</sup> *Idem*, under Section VI. C. 2., paras. 165–180.

<sup>189</sup> See *European Communities – Regime for the Importation, Sale and Distribution of Bananas*, Report of the Appellate Body, WT/DS27/AB/R. For a detailed overview of the complex procedural issues involved in this case, see Jackson/Grane, *The Saga Continues: An Update on the Banana Dispute and its Procedural Offspring*, in: *Journal of International Economic Law* 2001, 581 et seq. [hereinafter Jackson/Grane].

<sup>190</sup> See WTO documents WT/DS27/53, WT/DS27/ARB/ECU. Ecuador was authorized to apply cross-retaliation (for a definition, see above, Section 1).

<sup>191</sup> Jackson/Grane, p. 589, note in this context that even the arbitrators realized that the actual implementation by Ecuador of the authorized retaliation might not be realistic.

whose main export targets are the large markets of the EU itself, of the USA and of Japan.

In the TRIPS area, Ecuador intended to export phonograms to third countries without the consent of the European right holders, thus suspending its obligations towards the EC under Article 14 TRIPS (i.e., protection of performers, producers of phonograms and broadcasting organizations). However, this attempt to improve Ecuador's export volume proved illusory. The arbitration panel clarified that all other WTO Members remained bound by their TRIPS obligations towards the EC. Consequently, any third WTO Member country into which Ecuador would seek to export EU phonograms in the above described manner would have to apply Article 51 TRIPS Agreement, obligating Members' customs authorities to suspend the release into free circulation of those phonograms. In other words, the authorization of Ecuador to have recourse to cross-retaliation proved rather counterproductive, partly because of Ecuador's comparative economic weakness *vis-à-vis* the EC.

#### **7.6.2 The high cost of dispute settlement**

Due to the lack of domestic human resources, many developing countries for the purpose of dispute settlement need recourse to foreign experts. This implies high costs and often obliges those countries to refrain from making use of their right to invoke the DSU procedures against other states. It has been proposed that the WTO develop methods to reduce such financial burdens on developing countries.<sup>192</sup>

#### **7.6.3 The lack of information between the government and the private sector**

In many developing countries, there is a lack of effective mechanisms to ensure the flow of information between the government on the one side and the private sector on the other side. Given that only governments are authorized to launch a WTO dispute, this has important repercussions on the ability of governments to defend their domestic industry's interests. If private business is not informed about WTO rules, it will not be able to identify violations of those rules by other governments. Thus, the domestic industry will not ask their government to intervene in their favour before the WTO. The government, for its part, depends on information from the private sector in order to know whether there are any violations of WTO rules in foreign countries that limit the marketing opportunities of the domestic exporting industry.<sup>193</sup>

#### **7.6.4 The DSU approach to compensation**

According to Article 22:2 DSU, the effective payment of compensation for the non-implementation of DSB rulings depends on a common agreement between the parties to the dispute. If no such agreement can be reached, the complaining party will not be compensated, but authorized to suspend concessions or other obligations towards the respondent. As stated above, trade retaliation is of very

<sup>192</sup> See Kongolo, p. 261.

<sup>193</sup> See Kongolo, p. 261.

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limited value to developing countries. Their interests would be better served if they could claim compensation instead, which would constitute an actual benefit. This is why it has been proposed that the DSB should exercise pressure on developed countries to compensate the respective developing country.<sup>194</sup> Otherwise, the DSU might be conceived as a system largely ignoring the relative economic weakness of developing countries.

<sup>194</sup> Kongolo, p. 263, referring to Petersmann.

## Annex 1 Methods of Interpretation under the DSU

### 1. Introduction

TRIPS does not contain any specific provision dealing with treaty interpretation. However, it is listed in Annex 1 of the Dispute Settlement Understanding (hereinafter DSU) as one of the “covered agreements” to which the DSU applies (Article 1:1 DSU).

Article 3:2 of the DSU provides that the dispute settlement system serves

“to preserve the rights and obligations of Members under the covered agreements, and to clarify the existing provisions of those agreements in accordance with customary rules of interpretation of public international law” ... (Emphasis added).

Article 3:2 of the DSU also provides that

“[R]ecommendations and rulings of the DSB [Dispute Settlement Body] cannot add to or diminish the rights and obligations provided in the covered agreements.”

A similar provision can be found in Article 19:2 in connection with panel and Appellate Body reports.

This means that the role of the DSB, the Appellate Body and the panels is limited to clarifying Members’ rights and obligations under the WTO Agreements. Authoritative interpretation of the covered agreements is reserved to the WTO Members, as stated in Article IX:2 of the WTO Agreement:

“The Ministerial Conference and the General Council shall have the exclusive authority to adopt interpretations of this Agreement and of the Multilateral Trade Agreements. [...]”

In its ruling on *Japan – Taxes on Alcoholic Beverages*, the Appellate Body found that Articles 31 and 32 of the Vienna Convention on the Law of Treaties constituted customary rules of interpretation of public international law for the purposes of Article 3:2 DSU.<sup>195</sup> In addition, the Appellate Body made it clear in its first ruling that WTO law could not be considered in isolation from public international law.<sup>196</sup>

It has been observed that among the WTO Agreements, TRIPS is “probably the most difficult to interpret”.<sup>197</sup> This is due to the following factors:<sup>198</sup>

a) Intellectual property rights are perceived differently by societies according to levels of economic development and technological prowess. Given this divergent perception, WTO panels and the Appellate Body will be watched closely in the perspective of not to “add to or diminish the rights and obligations provided in

<sup>195</sup> *Japan-Taxes on Alcoholic Beverages*, Report of the Appellate Body, WT/DS8, 10, 11/AB/R, 4 October 1996, at 9, citing *United States-Standards for Reformulated and Conventional Gasoline*, Report of the Appellate Body, WT/DS2/AB/R, 29 April 1996. Note that GATT panels already applied customary methods on treaty interpretation. See E.-U. Petersmann, *The Dispute Settlement System of the World Trade Organization and the Evolution of the GATT Dispute Settlement System since 1948*, 31 *Common Market Law Review*, 1994, p. 1188.

<sup>196</sup> *United States-Standards for Reformulated and Conventional Gasoline*, WT/DS2/9, p. 19.

<sup>197</sup> See O. Cattaneo, *The Interpretation of the TRIPS Agreement: Considerations for the WTO Panels and Appellate Body*, *Journal of World Intellectual Property*, September 2000, volume 3, number 5, pp. 627–681 (p. 679) [hereinafter Cattaneo].

<sup>198</sup> *Ibid.*



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the . . . agreement". For the panels and the AB, this demands a delicate balancing exercise.

b) TRIPS incorporates pre-WTO intellectual property rights conventions (usually WIPO-administered). Membership of these agreements is not necessarily identical to membership of the WTO. This raises the question whether WTO panels and the Appellate Body have the power to adopt binding interpretations of these conventions. Also, it would be important to know if under TRIPS, those WIPO conventions should be subject to the same interpretations as customarily used or whether the different membership under TRIPS and the changing nature of IPRs should be taken into account.

c) The language of TRIPS, especially as far as the exceptions are concerned, is extremely vague. This makes it even more important for the panels and the AB to rely on clear, internationally agreed rules of treaty interpretation like the Vienna Convention.

## 2. Historical overview

### 2.1 Situation pre-TRIPS

WTO panels are not obliged to apply the rules of treaty interpretation laid down in Articles 31 and 32 of the Vienna Convention on the Law of Treaties<sup>199</sup>, although some panels have actually referred to them in some circumstances. But the provisions of the Vienna Convention are not mandatory.

### 2.2 Negotiating History of Articles 31 and 32 of the Vienna Convention<sup>200</sup>

It is at least dubious that any rule of interpretation of treaties existed before the conclusion of the Vienna Convention on the Law of Treaties.<sup>201</sup> Adjudicative

<sup>199</sup> Vienna Convention on the Law of Treaties, 1969, 1155 *United Nations Treaty Series*, 331.

<sup>200</sup> These provisions read as follows:

"Article 31 General Rule of Interpretation

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 connection with the conclusion of the treaty;

(b) any instrument which was made by one or more parties in connection 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.

4. A special meaning shall be given to a term if it is established that the parties so intended."

"Article 32 Supplementary means of interpretation

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."

<sup>201</sup> See, in general, V.D. Degan, *L'interprétation des accords en droit international*, Martinus Nijhoff, The Hague, 1963.

international bodies resorted to several principles of interpretation that generally contradicted or cancelled each other out, but there was no mandatory rule as to how to interpret treaties.

These pre-Vienna principles responded to three diverse approaches to treaty interpretation. First, for the “intention of the parties” school the only legitimate intention of interpretation is to ascertain and to give effect to the intentions, or the presumed intentions, of the parties.<sup>202</sup> This method is analogous to common law contract interpretation, based on the principle that the most important value is to protect a party’s reasonable expectations,<sup>203</sup> and admits liberal recourse to *travaux préparatoires* and to other evidence of the intention of the contracting States as means of interpretation. Second, for the “meaning of the text” school, the prime object of interpretation is to establish what the text means according to the ordinary or apparent signification of its terms. Finally, for the “teleological” school, it is the general purpose of the treaty itself that counts, considered to the same extent “as having an existence of its own, independent of the original intentions of the framers.”<sup>204</sup>

Article 31 of the Vienna Convention on the Law of Treaties is based on the view that the text must be presumed to be the authentic expression of the intention of the parties; and that, in consequence, the starting point of interpretation is the elucidation of the meaning of the text, not an investigation *ab initio* into the intentions of the parties.<sup>205</sup> The ordinary meaning of a term is not to be determined in the abstract but in the context of the treaty and in the light of its object and purpose.

Article 31.2 seeks to define what is comprised in the “context” for the purposes of the interpretation of the treaty. According to this paragraph, two classes of acts should be so regarded:

- a) any agreement relating to the treaty which was made between all the parties in connection with the conclusion of the treaty; and
- b) any instrument which was made in connection with the conclusion of the treaty and accepted by the other parties as an instrument related to the treaty.<sup>206</sup>

<sup>202</sup> See McDougal, S. Myres et al., *The Interpretation of Agreements and World Public Order* 90, 1967. For a criticism to McDougal’s approach to treaty interpretation, see Sir G. Fitzmaurice; *Vae Victis or Woe to the Negotiators! Your Treaty or Our Interpretation of It?*, *American Journal of International Law*, vol. 65, 1971, p. 358 et seq.

<sup>203</sup> Peter C. Maki, *Interpreting GATT Using the Vienna Convention on the Law of Treaties: A Method to Increase the Legitimacy of the Dispute Settlement System*, *Minnesota Journal of Global Trade* 2000, vol. 9, pp. 343–360. However, it must be noted that the majority of authors in international law do not study the principles of interpretation as they exist in domestic law, as they consider that interpretation problems arising from international and domestic law are different and require the application of different principles. Exceptionally, Kelsen has pointed out that there is nothing in treaties that calls for different principles of interpretation as applied to other legal instruments (H. Kelsen, *Principles of International Law*, New York, Holt Rinehart and Winston, 1966, p. 321).

<sup>204</sup> For a detailed description of these three approaches to treaty interpretation, see G. Fitzmaurice, *The Law and Procedure of the International Court of Justice: Treaty Interpretation and Certain Other Treaty Points*, *British Yearbook of International Law*, 1951, p. 1 ff.

<sup>205</sup> United Nations Conference on the Law of Treaties, Official Records, First and Second sessions (Vienna, 26 March–24 May 1968 and 9 April–22 May 1969), p. 40, para. 11.

<sup>206</sup> *Ibid.* p. 41, para. 13.

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Article 31. 3(a) embodies the well-settled principle that when an agreement as to the interpretation of a provision is established as having been reached before or at the time of the conclusion of the treaty, it is to be regarded as forming part of the treaty.<sup>207</sup>

Paragraph 3(b) specifies that any “subsequent practice in the application of the treaty” by its parties may constitute objective evidence of the understanding of the parties as to the meaning of the treaty.

Paragraph 3 (c) sets up the principle of “contemporaneity” or “evolutionary” interpretation, by stating that “any relevant rules of international law applicable in the relations between the parties” have to be taken into account when interpreting the treaty. There is controversy about how this provision is to be interpreted. While advocates of “contemporaneity” stress the necessity of any interpretation to closely keep to the understanding of the respective rules at the time of their adoption, proponents of an “evolutionary” interpretation argue that legal rules cannot be detached from societal, political and economic changes and will only remain relevant if these changes are taken into account.

Finally, Article 31.4 provides for the somewhat exceptional case where, notwithstanding the apparent meaning of a term in its context, it is established that the parties intended it to have a special meaning.

Although Article 31 sets up different principles of treaty interpretation, it cannot properly be regarded as laying down a hierarchy of norms for the interpretation of treaties. The preparatory work of the Vienna Convention on the Law of Treaties (VCLT) reveals that the connection underlying the different paragraphs intended to indicate that the application of the means of interpretation in this provision would be a single combined operation. All the various elements, as they were present in any given case, would be seen as a whole and their interaction would provide the legally relevant interpretation. It was emphasized that the process of interpretation is a unity and that the provisions of the Article form a single, closely integrated rule.<sup>208</sup>

Article 32 contemplates the possibility of resorting to the preparatory work of a treaty when, after applying Article 31, the result is ambiguous or obscure, or manifestly absurd or unreasonable. It must be noted that the word “supplementary” emphasizes that there is no room for considering Article 32 as an alternative or autonomous means of interpretation, but only as a means to aid an interpretation governed by the principles contained in Article 31.<sup>209</sup>

### 3. The interpretation of the TRIPS Agreement

Before turning to the methods of interpretation actually applied by the Appellate Body,<sup>210</sup> some general observations concerning the interpretation of TRIPS appear useful.<sup>211</sup>

<sup>207</sup> Ibid. p. 41, para. 14.

<sup>208</sup> Ibid. p. 39, para. 8.

<sup>209</sup> Ibid. p. 43, para. 19.

<sup>210</sup> See below, Section 4 of this Annex.

<sup>211</sup> For more details on possible interpretations of each TRIPS provision see the respective chapters of this book.

It is a common feature of TRIPS that its obligations are worded in a very broad manner, leaving considerable discretion to WTO Members for their domestic implementation.<sup>212</sup> In addition to that, these obligations represent only minimum standards.<sup>213</sup> For instance, Article 15.1 does not contain an exhaustive list of criteria for the registrability of trademarks; it merely sets up minimum rules for the eligibility of a trademark for registration, leaving it up to WTO Members to deny the registration on other grounds determined under domestic law.

Consequently, the general approach to the interpretation of TRIPS obligations must be a broad one, leaving considerable discretion to Members for their implementing legislation. For the panels and the Appellate Body, this implies the exercise of judicial self-restraint.<sup>214</sup>

As far as the exceptions are concerned, their interpretation might have to follow a different concept. As a general rule, exceptions are to be interpreted in a narrow manner in order to prevent them from rendering the basic obligations ineffective.<sup>215</sup> On the other hand, this should not prevent Members from relying on these exceptions for the pursuit of important policy objectives. It is thus the difficult task of the panels and the Appellate Body to make sure that the exceptions meet their objective without blocking IPR holders from exercising their rights. Like the obligations, the exceptions are expressed in very broad and vague language. This makes it important to develop some general guidelines for their interpretation.<sup>216</sup>

Under the various intellectual property rights conventions administered by WIPO, Member countries have adopted their own and sometimes conflicting interpretations of the exceptions contained in these instruments. Thus, WTO panels and the Appellate Body have to make sure that these provisions, which are incorporated into TRIPS by reference, are interpreted in a uniform way. Another way of promoting uniformity is to use the same interpretation for several different exceptions. In the *Canada – Patent* case, the panel used the negotiating history and the text of Article 9(2) of the Berne Convention (i.e., a copyright-related exception) for the interpretation of the patent-related exception under Article 30.<sup>217</sup> This may be explained by the fact that the language

<sup>212</sup> See TRIPS Article 1.1, third sentence: “Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal systems and practice.”

<sup>213</sup> See Article 1.1, second sentence: “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.”

<sup>214</sup> J. H. Jackson, *Dispute Settlement and the WTO. Emerging Problems*, 1 *Journal of International Economic Law* 1998, pp. 329, 342, observes a trend in the jurisprudence of the Appellate Body toward more deference to national law.

<sup>215</sup> In accordance with this rule of interpretation, the WTO panels and the Appellate Body have so far taken a narrow approach to the various TRIPS exceptions, see below, under Section 4 of this Annex.

<sup>216</sup> For the following, see Cattaneo, p. 638 et seq.

<sup>217</sup> *Canada – Patent Protection of Pharmaceutical Products*, Report of the panel of 17 March 2000, WT/DS114/R, paras. 7.70–7.72.

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of Article 9(2) of the Berne Convention<sup>218</sup> more or less reappears in several of the TRIPS exceptions, not only in Article 13 (exceptions to copyrights: “normal exploitation”, “do not unreasonably prejudice the legitimate interests”), but also partly in Article 17 (exception to trademarks: “limited exceptions”, “legitimate interests”), and Article 30 (exception to patents: “limited exceptions”, “do not unreasonably conflict with a normal exploitation”, “do not unreasonably prejudice the legitimate interests”). This means that the same criteria may be employed for the interpretation of these similar terms. What actually constitutes a “normal exploitation”, “legitimate interests” and an “unreasonable prejudice” obviously depends on the respective intellectual property right and on each individual case. However, the common denominator of all these different exceptions is their basic purpose to prevent the abuse of such rights.<sup>219</sup> This is an expression of the basic structure of TRIPS, as made clear in its preamble and in Articles 7 and 8. Instead of a one-sided protection of IPRs, the Agreement aims to strike a balance between the protection of private rights and trade liberalization and various public policy objectives (such as the preservation of public health, for example). This means that the “normal exploitation” of any intellectual property right is one which does not restrain international trade or the pursuit of public policy objectives. “Legitimate interests” are those not colliding with legitimate trade or with other public policy objectives, and a “prejudice” to an intellectual property right is “unreasonable” when the limitation of such right is either not necessary for the attainment of a public policy objective or disproportionate.

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##### 4.1 The particular nature of the TRIPS Agreement

The complexities of the negotiations of TRIPS are reflected in its rather vague provisions, particularly in the field of exceptions. As Hudec pointed out,

“... [W]hen a government is unable to secure true protection of certain interests, the first form of temporizing will usually be the imperfect legal commitment. [...] International litigation can provide for second-stage temporizing.”<sup>220</sup>

In *India – Patent Protection* the question arose as to whether TRIPS should be interpreted by applying the same principles applicable to the other covered agreements. The panel decided that

“We must bear in mind that the TRIPS Agreement, the entire text of which was newly negotiated in the Uruguay Round and occupies a relatively self-contained, sui generis, status in the WTO Agreement, nevertheless is an integral part of the WTO system, which itself builds upon the experience of nearly half a century

<sup>218</sup> This Article reads as follows: “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.” (emphasis added).

<sup>219</sup> See Cattaneo, p. 640.

<sup>220</sup> R.E. Hudec, *Transcending the Ostensible: Some Reflections on the Nature of Litigation Between Governments*, 72 *Minnesota Law Review* 211, 1987, at. 218.

under the GATT 1947 [ . . . ] Indeed, in light of the fact that the TRIPS Agreement was negotiated as a part of the overall balance of concessions in the Uruguay Round, *it would be inappropriate not to apply the same principles in interpreting the TRIPS Agreement as those applicable to the interpretation of other parts of the WTO Agreement.*"<sup>221</sup> (Emphasis added).

#### 4.2 The principle of effectiveness

The first principle of interpretation embodied in Article 31 of the VCLT is the principle of effectiveness. In the *United States – Gasoline case*, the Appellate Body has recognized this principle as applying in connection with the "covered agreements", and therefore to TRIPS. The AB held that:

"One of the corollaries of the 'general rule of interpretation' in the Vienna Convention is that interpretation must give meaning and effect to all the terms of the treaty. An interpreter is not free to adopt a reading that would result in reducing whole clauses or paragraphs of a treaty to redundancy or inutility."<sup>222</sup>

This strong reliance by the Appellate Body on the terms of a treaty reappeared in the *India – Patent Protection case*, where the AB reversed the panel's findings concerning the issue of good faith interpretation. In the panel's opinion, good faith interpretation within the meaning of Article 31(1) of the Vienna Convention necessitated the protection of WTO Members' legitimate expectations as to TRIPS.<sup>223</sup> Such protection is not expressly required in TRIPS, but, according to the panel, the obligation to provide such protection can be derived from the fact that the Agreement serves the protection of IPRs in general.<sup>224</sup> The AB refused this interpretation of the Agreement as being too detached from the actual terms used in that Agreement. It observed:

"The Panel misapplies Article 31 of the Vienna Convention. The Panel misunderstands the concept of legitimate expectations in the context of the 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

<sup>221</sup> *India – Patent Protection for Pharmaceutical and Chemical Agricultural Products* (complaint by the United States), WT/DS50/R, Report of the panel, 5 September 1997, para. 7.19.

<sup>222</sup> *United States – Standards for Reformulated and Conventional Gasoline*, Report of the Appellate Body, WT/DS2/AB/R, 29 April 1996, p. 23.

<sup>223</sup> In the TRIPS context, such legitimate expectations would concern the competitive relationship between Members' respective nationals. See *India – Patent Protection for Pharmaceutical and Chemical Agricultural Products*, Report of the panel, 5 September 1995, WT/DS50/R, paras. 7.21, 7.22.

<sup>224</sup> *Ibid.*, para. 7.18: "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."

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of words that are not there or the importation into a treaty of concepts that were not intended.”<sup>225</sup>

In other words, the Appellate Body expressed the opinion that the clear language of a treaty imposes a definite limit to any teleological interpretation. For developing country Members, this interpretation applied by the AB has important implications. If the AB had condoned the panel’s view on the protection of legitimate expectations under TRIPS, Members could actually initiate WTO proceedings against other Members for alleged frustration of legitimate expectations on the part of their nationals. Thus, even if the defendant Member had respected all its TRIPS obligations, it could still be sued before the WTO if some of its public policy objectives had upset the competitive relationship between national and foreign right holders, without however violating any TRIPS rules. Such claims would amount to non-violation complaints, which are currently not admitted under TRIPS.<sup>226</sup> By stating that the legitimate expectations of a party to a treaty are reflected in the treaty language itself, the AB has made clear that TRIPS-related complaints before the Dispute Settlement Body may only be based on allegations of violations that are reflected in the express terms of the Agreement. The AB has thus rejected the introduction through the back door of TRIPS-related non-violation complaints. Members therefore remain free to adopt certain public policy objectives to pursue their development goals, as long as they respect their express obligations under TRIPS. In that case, a possible impact of domestic policy measures on the economic expectations of foreign IP right holders does not expose the respective host country Member to any valid claims before a WTO dispute settlement panel.

#### 4.3 The context of the treaty terms and the object and purpose of the treaty

According to Article 31, paragraph 2, of the Vienna Convention, the context to be taken into account for the purposes of interpretation includes the preamble and the annexes of the treaty, and any other agreement or text concluded by the parties in connection with that treaty. In the TRIPS Preamble, WTO Members express the desire

“to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.”

This is certainly guidance also for the determination of the object and purpose of TRIPS. In *Canada-Patent*, the Panel took a view in perfect line with Article 31, paragraph 2, of the Vienna Convention:

“In the framework of the TRIPS Agreement, which incorporates certain provisions of the major pre-existing international instruments on intellectual property, *the context to which the Panel may have recourse for the purposes of interpretation of specific TRIPS provisions [...] is not restricted to the text, Preamble and Annexes to*

<sup>225</sup> *India – Patent Protection for Pharmaceutical and Chemical Agricultural Products*, Report of the Appellate Body, 19 December 1997, WT/DS50/AB/R, para. 45.

<sup>226</sup> See above, Chapter 32.

*the TRIPS Agreement itself, but also includes the provisions of the other international instruments on intellectual property incorporated into the TRIPS Agreement, as well as any agreement between the parties relating to these Agreements within the meaning of Article 31:2 of the Vienna Convention on the Law of Treaties. Thus [...] Article 9:2 of the Berne Convention for the Protection of Literary and Artistic Works [...] is an important contextual element for the interpretation of Article 30 of the TRIPS Agreement.”<sup>227</sup> (Emphasis added).*

#### 4.4 Subsequent state practice and the status of prior panel reports in WTO law

Article 31, paragraph 3 (b) of the Vienna Convention provides that “any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation” should be taken into account for the purpose of interpretation together with the context. “Subsequent practice” was, in the view of the Panel in *Japan – Taxes on Alcoholic Beverages*, previously adopted panel reports. The AB overruled this conclusion, arguing that previous panel reports were no binding precedents and thus did not have sufficient force and consistency to constitute “subsequent practice” within the meaning of Article 31 (3) (b) of the Vienna Convention. According to the AB, adopted panel reports should be taken into account for the settlement of a specific dispute, without however obliging the panel to follow the same reasoning. Even unadopted panel reports provide guidance for the interpretation of the WTO Agreements. But the exclusive authority to adopt generally binding interpretations of the WTO agreements lies with the Ministerial Conference, as the AB pointed out. It held:

“Generally, in international law, the essence of subsequent practice in interpreting a treaty has been recognized as a “concordant, common and consistent” sequence of acts and pronouncements which is sufficient to establish a discernible pattern implying the agreement of the parties regarding its interpretation. An isolated act is generally not sufficient to establish subsequent practice; it is a sequence of acts establishing the agreement of the parties that is relevant.

Although GATT 1947 panel reports were adopted by decisions of the CONTRACTING PARTIES, a decision to adopt a panel report did not under GATT 1947 constitute agreement by the CONTRACTING PARTIES on the legal reasoning in that panel report. The generally-accepted view under GATT 1947 was that the conclusions and recommendations in an adopted panel report bound the parties to the dispute in that particular case, but subsequent panels did not feel legally bound by the details and reasoning of a previous panel report.

We do not believe that the CONTRACTING PARTIES, in deciding to adopt a panel report, intended that their decision would constitute a definitive interpretation of the relevant provisions of GATT 1947. Nor do we believe that this is contemplated under GATT 1994. There is specific cause for this conclusion in the WTO Agreement. Article IX:2 of the WTO Agreement provides: “The Ministerial Conference and the General Council shall have the exclusive authority to adopt interpretations of this Agreement and of the Multilateral Trade Agreements”. Article IX:2 provides

<sup>227</sup> *Canada – Patent Protection of Pharmaceutical Products*, WT/DS114/R, Report of the panel, 17 March 2000, at para. 7.14.



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further that such decisions “shall be taken by a three-fourths majority of the Members”. The fact that such an “exclusive authority” in interpreting the treaty has been established so specifically in the WTO Agreement is reason enough to conclude that such authority does not exist by implication or by inadvertence elsewhere.

Historically, the decisions to adopt panel reports under Article XXIII of the GATT 1947 were different from joint action by the CONTRACTING PARTIES under Article XXV of the GATT 1947. Today, their nature continues to differ from interpretations of the GATT 1994 and the other Multilateral Trade Agreements under the WTO Agreement by the WTO Ministerial Conference or the General Council. This is clear from a reading of Article 3.9 of the DSU, which states:

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

Article XVI:1 of the WTO Agreement and paragraph 1(b)(iv) of the language of Annex 1A incorporating the GATT 1994 into the WTO Agreement bring the legal history and experience under the GATT 1947 into the new realm of the WTO in a way that ensures continuity and consistency in a smooth transition from the GATT 1947 system. This affirms the importance to the Members of the WTO of the experience acquired by the CONTRACTING PARTIES to the GATT 1947 – and acknowledges the continuing relevance of that experience to the new trading system served by the WTO. Adopted panel reports are an important part of the GATT acquis. They are often considered by subsequent panels. They create legitimate expectations among WTO Members, and, therefore, should be taken into account where they are relevant to any dispute. However, they are not binding, except with respect to resolving the particular dispute between the parties to that dispute. In short, their character and their legal status have not been changed by the coming into force of the WTO Agreement.

For these reasons, we do not agree with the Panel’s conclusion in paragraph 6.10 of the Panel Report that “panel reports adopted by the GATT CONTRACTING PARTIES and the WTO Dispute Settlement Body constitute subsequent practice in a specific case” as the phrase “subsequent practice” is used in Article 31 of the Vienna Convention. Further, we do not agree with the Panel’s conclusion in the same paragraph of the Panel Report that adopted panel reports in themselves constitute “other decisions of the CONTRACTING PARTIES to GATT 1947” for the purposes of paragraph 1(b)(iv) of the language of Annex 1A incorporating the GATT 1994 into the WTO Agreement.

However, we agree with the Panel’s conclusion in that same paragraph of the Panel Report that unadopted panel reports “have no legal status in the GATT or WTO system since they have not been endorsed through decisions by the CONTRACTING PARTIES to GATT or WTO Members”. Likewise, we agree that “a panel could nevertheless find useful guidance in the reasoning of an unadopted panel report that it considered to be relevant”.<sup>228</sup>

<sup>228</sup> *Japan – Taxes on Alcoholic Beverages*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, Report of the Appellate Body, 1 November 1996, p. 13 ff. (under section “E. Status of Adopted Panel Reports”; footnotes omitted).

*India – Patents* raised the specific question as to whether GATT subsequent practice is to be taken into account for interpreting TRIPS. The panel categorically concluded that

“Since the TRIPS Agreement is one of the Multilateral Trade Agreements, we must be guided by the jurisprudence established under GATT 1947 in interpreting the provisions of the TRIPS Agreement unless there is a contrary provision . . .”<sup>229</sup>

This conclusion is in line with the provision of Article XVI:1 of the WTO Agreement, providing that

“ . . . the WTO must be guided by the decisions, procedures and customary practices followed by the CONTRACTING PARTIES to GATT 1947 and the bodies established in the framework of GATT 1947”.<sup>230</sup>

Article 3, paragraph 1, of the DSU, for its part, states that

“[M]embers affirm their adherence to the principles for the management of disputes heretofore applied under Articles XXII and XXIII of GATT 1947, and the rules and procedures as further elaborated and modified therein.”

#### 4.5 The principle of evolutionary interpretation

Article 31, paragraph 3 (c), of the Vienna Convention, has been interpreted as referring either to the so-called principle of contemporaneity or to the principle of evolutionary interpretation (see above, in the introduction to this Annex).

Article 31, paragraph 3 (c) is a key provision for dealing with the interrelationship between WTO law and other international law rules and for the interpretation of certain provisions of TRIPS, such as Article 27, paragraph 2 which stipulates 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, to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law.”

The same goes for the interpretation of Article 31(b) that allows for compulsory licensing in case of national emergency, or other cases of extreme emergency or in cases of public non-commercial uses. Such concepts as *ordre public*, morality, national emergency or extreme urgency are likely to call for the application of this principle of interpretation. The same is true for determining what is “necessary” in order to protect human, animal or plant life or health, or to avoid serious prejudice to the environment. On the one hand, it could be argued that any interpretation should be guided by the understanding of those terms at the time of their negotiation. Such approach would put much emphasis on the sovereignty of the

<sup>229</sup> *India – Patent Protection for Pharmaceutical and Chemical Agricultural Products* (complaint by the United States), WT/DS50/R, Report of the panel, 5 September 1997, para. 7.19.

<sup>230</sup> Similarly, Article 1, paragraph (b) (iv), of the GATT 1994, establishes that “other decisions of the CONTRACTING PARTIES to GATT 1947” are part of the GATT 1994.

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parties to a treaty and leave changes in interpretation up to express modifications of a treaty's text.

On the other hand, it could be argued that the above concepts are evolutionary by nature. A treaty may only serve its purpose of effectively regulating the relationship between states if it takes account of important legal, political, economic and societal developments. The *Shrimp-Turtle* case is the leading example of the application of this approach by the Appellate Body. In referring to the International Court of Justice Advisory Opinion on *Namibia (Legal Consequences)*, the AB upheld the view that

“[Concepts embodied in a treaty are] by definition, evolutionary, [their] interpretation cannot remain unaffected by the subsequent development of the law [...] Moreover, an international instrument has to be interpreted and applied within the framework of the entire legal system prevailing at the time of interpretation.”<sup>231</sup>

In another case, the Appellate Body stated that

“WTO rules are not so rigid or so inflexible as not to leave room for reasoned judgments in confronting the endless and ever-changing ebb and flow of real facts in real cases in the real world. They will serve the multilateral trading system best if they are interpreted with that in mind.”<sup>232</sup>

#### 4.6 Recourse to preparatory work, to the intention of the parties and to teleological interpretation

In the *India – Patent case* (complaint by the EC), the panel referred to the negotiating history of TRIPS in accordance with Article 32 of the VCLT, “only to confirm the meaning resulting from the application of the rules set out in Article 31 of the Vienna Convention.”<sup>233</sup> Similarly, in *Canada – Patent*, the panel referred to the preparatory work of Article 11*bis* of the Berne Convention in the understanding that interpretation may go beyond the negotiating history of TRIPS proper and also inquire into that of the incorporated international instruments on intellectual property.<sup>234</sup>

It may be stated that the rules of interpretation embodied in Article 31 of the VCLT, although they give preeminence to the principle of textuality, leave certain room for searching into the intention of the parties or for teleological interpretation. The limits of such a margin of manoeuvre of the judge depend, to some extent, on its judicial policy. A conservative tribunal is likely to stick almost exclusively to the terms of the text, whereas a more activist tribunal is likely to give more room to the object and purpose of the treaty or to further research into the intentions of the parties.

<sup>231</sup> *United States – Import Prohibition of Certain Shrimp and Shrimp Products*, WT/DS58/AB/R, Report of the Appellate Body, 12 October 1998, at para. 130. See Ph. Sands, *Vers une transformation du droit international*, Cours de l'IEI, Droit International 4, Pedone, 2000, pp. 179 and ff.

<sup>232</sup> *Japan – Taxes on Alcoholic Beverages*, WT/DS8, 10, 11/AB/R, p. 34 (section H(2)c).

<sup>233</sup> *India – Patent Protection for Pharmaceutical and Chemical Agricultural Products*, Complaint by the European Communities, Report of the panel, 24 August 1998, WT/DS79/R, p. 60, para. 7.40, note 110.

<sup>234</sup> *Canada – Patent Protection of Pharmaceutical Products*, WT/DS114/R, Report of the panel, 17 March 2000, p. 150, para. 7.15

These subjective approaches to treaty interpretation appear mainly in connection with multilateral treaties. As Thirlway has noticed, in analyzing the case law of the International Court of Justice:

“at least in multilateral treaties, it has been the ‘intention’ or object of the treaty which has been taken as starting-point, either explicitly or implicitly”.<sup>235</sup>

Divergent perceptions of WTO Members regarding intellectual property protection may lead them to present different approaches to interpretation of TRIPS in disputes before the organs for the settlement of disputes. While developing countries might take a narrower view in interpreting their obligations and an expansive (evolutionary) view of the exceptions contained in TRIPS, developed countries might wish, on the contrary, to narrow the scope of these exceptions in order to avoid undermining the protection of private rights. The WTO panels and Appellate Body have so far interpreted the exceptions contained in TRIPS in a narrow way,<sup>236</sup> and they will have in the future the challenging task of achieving a balance among these different views when interpreting the Agreement.

#### 4.7 The interpretation of national law

In the *India – Patent* case, the Appellate Body upheld the panel’s approach to the interpretation of Indian domestic law for the implementation of the “mailbox rule” under Article 70.8.<sup>237</sup> While acknowledging that WTO Members were in principle free to determine the appropriate method of implementing the TRIPS obligations (Article 1.1), the AB insisted that a WTO panel has to have the possibility to examine whether a Member has violated those obligations. It is solely for this purpose, and not for the examination of the respective domestic law “as such” that a panel may verify the compatibility of national law with TRIPS obligations. The Appellate Body held:

64. “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.

65. In public international law, an international tribunal may treat municipal law in several ways. 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

<sup>235</sup> H.W.A. Thirlway, *The Law and Procedure of the International Court of Justice 1960–1989*, British Yearbook of International Law, 1992, p. 19.

<sup>236</sup> C. Correa, *The WTO Dispute Settlement Mechanism*, The Journal of World Intellectual Property, vol. 4, March 2001, 251, 253, second para [hereinafter Correa].

<sup>237</sup> Article 70.8 requires Members that do not, for a transitional period, provide patent protection to pharmaceutical and agricultural chemical products to establish a mechanism for the receipt and the preservation of patent applications (the so-called “mailbox”). For more details on this case, see Chapter 2 on Article 1.1 and Chapter 36 on Article 70.

## 5. Conclusion

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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.

66. 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."

67. 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.

68. 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.<sup>238</sup>

## 5. Conclusion

Given the considerable vagueness of many TRIPS provisions, legal interpretation plays a decisive role in the definition of Members' rights and obligations. Depending on whether a panel stresses more the purpose of intellectual property

<sup>238</sup> Report of the Appellate Body, paras. 64–68.

protection or of certain public policies such as the transfer of technology, the TRIPS obligations will become more burdensome either on developing or on developed countries. Here, it is important to have recourse to methods of interpretation acceptable to all Members.<sup>239</sup> Since a purely textual interpretation will not always clarify the extent of a right or an obligation, it has to be combined with an analysis of the respective provision's object and purpose (teleological interpretation). It is in this context that the interests of developing countries may be taken into account. Panels should stress the developmental and technological objectives of TRIPS as articulated in the preamble as well as in Articles 7 and 8. This of course should not contradict the clear language of a certain provision; an effective protection of intellectual property rights has to be secured, and a balance of interests needs to be struck. But it is important to acknowledge that TRIPS, in its present form, considerably enhances the protection of intellectual property rights and thus serves the interests of technologically more advanced economies.<sup>240</sup> On the other hand, an efficient worldwide protection of intellectual property is only possible with the cooperation of developing countries. In order to assure a cooperative attitude on the part of those countries, their concerns about high-level intellectual property protection and TRIPS-plus approaches have to be taken seriously. Given the considerable differences in the level of development of WTO Members, it is important to give the weakest countries the possibility to accede to a higher economic level. This is possible through an interpretation that has regard for the developmental objectives of TRIPS. Once developing countries have had the chance to establish their own industries, it will be in their own interest to shift from the promotion of public policy objectives to a more efficient protection of intellectual property.<sup>241</sup> This shift of preference may be reached by a combined textual and teleological interpretation, based on both the in-built flexibility of the Agreement and its objectives and principles.

<sup>239</sup> See Cattaneo, p. 636.

<sup>240</sup> The main elements of this enhanced protection *vis-à-vis* the traditional WIPO conventions are the establishment of (relatively high) minimum standards of protection (Article 1.1) as well as the obligation to establish a mechanism for the receipt and preservation of patent applications under Article 70.8. Finally, the decisive advantage offered to IP holders under the TRIPS Agreement is the existence of the binding dispute settlement procedures under the DSU.

<sup>241</sup> For more details on the relationship between enhanced protection of intellectual property rights and technology transfer, see Chapter 34.