

5: Exhaustion of Rights

Article 6 Exhaustion

For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

Paragraph 5 of the Doha Declaration on the TRIPS Agreement and Public Health

5. Accordingly and in the light of paragraph 4 above, while maintaining our commitments in the TRIPS Agreement, we recognize that these flexibilities include:

[...]

(d) The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.

1. Introduction: terminology, definition and scope

Article 6 addresses the exhaustion of intellectual property rights. The concept of exhaustion plays an enormously important role in determining the way that intellectual property rules affect the movement of goods and services in international trade.

An intellectual property right, such as patent, trademark or copyright, is typically defined in terms of rights granted to the holder to prevent others from making use of it. For example, a patent grants to an inventor the right to prevent others from making, using, selling, offering for sale, or importing the invention without his or her consent. The trademark grants to its holder the right to prevent others from using a protected sign on identical or similar goods where such use is likely to cause consumer confusion. The copyright grants to its holder the right to prevent others from reproducing or distributing the work.

1. Introduction: terminology, definition and scope

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The doctrine of exhaustion addresses the point at which the IPR holder's control over the good or service ceases. This termination of control is critical to the functioning of any market economy because it permits the free transfer of goods and services. Without an exhaustion doctrine, the original IPR holder would perpetually exercise control over the sale, transfer or use of a good or service embodying an IPR, and would control economic life.

An IPR is typically exhausted by the "first sale" (U.S. doctrine) or "placing on the market" of the good or service embodying it. The basic idea is that once the right holder has been able to obtain an economic return from the first sale or placing on the market, the purchaser or transferee of the good or service is entitled to use and dispose of it without further restriction.

As illustration, consider a can of soda labelled with the famous "Coca-Cola" trademark. Because the Coca-Cola Company holds rights to that mark, it may prevent others from first-selling the can of soda without its consent. If you buy the can of soda from an authorized first-seller, the Coca-Cola Company's right in its trademark is exhausted, and it cannot prevent you from drinking the soda, or from giving or selling the can of soda to someone else. The trademark holder has lost its right to control further disposition of the product. Your purchase of the can of Coca-Cola does not authorize you to begin making your own cans of Coca-Cola, or licensing the mark to others. In other words, the first sale does not grant you rights in the trademark, but rather it extinguishes the Coca Cola Company's entitlement to control movement of that particular can of soda.

From the standpoint of the international trading system, the focus of the exhaustion question is whether it operates on a national, regional or international basis. IPRs are typically granted by national authorities. With the grant of an IPR, the patent, trademark or copyright holder obtains a "bundle of rights" that it may exercise within the territory of the granting authority. When a good or service is first sold or marketed in a country, this exhausts the IPR embodied in it.²⁰¹ Yet the same IPR holder may hold equivalent or "parallel" rights in many countries. The Coca-Cola Company, again for illustrative purposes, may hold trademark registrations for the Coca-Cola mark in every country of the world.

A country may choose to recognize that exhaustion of an IPR occurs when a good or service is first sold or marketed outside its own borders. That is, the first sale or marketing under a "parallel" patent, trademark or copyright abroad exhausts the IPR holder's rights within that country. If exhaustion occurs when a good or service is first sold or marketed outside a country, the IPR holder within the country may not oppose importation on the basis of its IPR. The importation of a good or service as to which exhaustion of an IPR has occurred abroad is commonly referred to as "parallel importation", and the goods and services subject to such trade are commonly referred to as "parallel imports". Since goods and services

²⁰¹ The manner in which IPRs are affected by exhaustion doctrine may vary depending on the characteristics of the form of protection. For example, while the first sale of a book will exhaust the copyright holder's right to control distribution of the book, the first showing of a film may not exhaust the right to control further showing of the film. For a discussion of the rental right in cinematographic works under Article 11, TRIPS, see Chapter 10.

subject to exhaustion of IPRs are exported as well as imported, the subject matter of trade in such goods is commonly referred to as “parallel trade”.

If a country recognizes a doctrine of “national” exhaustion, an IPR holder’s right to control movement of a good or service is only extinguished by the first sale or marketing of a good or service within the territory of that country. If a country recognizes a doctrine of “regional” exhaustion, an IPR holder’s right to control movement is extinguished when a good or service is first sold or marketed in any country of the region. If a country recognizes a doctrine of “international exhaustion”, an IPR holder’s right to control movement is extinguished when a good or service is first sold or marketed anywhere in the world.

The flow of goods and services across borders is significantly affected by the exhaustion doctrine that WTO Members choose to adopt. Under a doctrine of international exhaustion, goods and services flow freely across borders after they have been first sold or placed on the market under certain conditions anywhere in the world. Under a doctrine of national exhaustion, the movement of goods and services may be blocked by IPR holders. Under national exhaustion, IPR holders have the power to segregate markets.

There is considerable debate concerning whether granting IPR holders the power to segregate markets is good or bad from various perspectives – economic, social, political and cultural. From the standpoint of those favouring open markets and competition, it may appear fundamentally inconsistent to permit intellectual property to serve as a mechanism to inhibit trade. Yet IPR holders argue that there are positive dimensions to market segregation, and corollary price discrimination.

During the GATT TRIPS negotiations, there was fairly extensive discussion of the exhaustion issue, but governments did not come close to agreeing upon a single set of exhaustion rules for the new WTO. They instead agreed that each WTO Member would be entitled to adopt its own exhaustion policy and rules. This agreement was embodied in Article 6, precluding anything in that agreement from being used to address the exhaustion of rights in dispute settlement, subject to the TRIPS provisions on national and MFN treatment.

2. History of the provision

2.1 Situation pre-TRIPS

Prior to negotiation of the TRIPS Agreement governments maintained different policies and rules on the subject of exhaustion of intellectual property rights in so far as those policies and rules affected international trade.²⁰² The situation in Europe and in the United States was rather complicated, as countries not only

²⁰² The first clear articulation of the concept of exhaustion of IPRs is sometimes traced to an 1873 U.S. Supreme Court decision, *Adams v. Burke* U.S. (17 Wall) 453 (1873). This case involved an attempt by the holder of a patent on a funeral casket lid to impose territorial restrictions on a purchaser’s resale of caskets incorporating that lid. The Supreme Court held that the patent holder’s control over the invention was exhausted on the first sale. It said:

“in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine

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followed different approaches to the questions of national, regional and international exhaustion, but often differentiated their policies and rules depending upon the type of IPR affected.

In the United States, for example, the Supreme Court had addressed the issue of exhaustion in the field of trademarks, and interpreted domestic law to establish a “common control” doctrine.²⁰³ If a product protected by a U.S. trademark was first sold abroad by a company owned or under common control with a company in the United States, the U.S. trademark could not be invoked to prevent parallel imports. However, if the product was first sold abroad by an independent company, or a licensee of the U.S. trademark holder, parallel imports could be blocked.

The Supreme Court had never expressly addressed the question of parallel importation in the field of patents.²⁰⁴ Several important Court of Appeals decisions held in favour of international exhaustion of patent rights.²⁰⁵ There was some contrary opinion at the district court level.²⁰⁶ In the field of copyright, there was little in the way of judicial decision regarding national and international exhaustion prior to TRIPS, although this subject matter has been addressed with some frequency following its negotiation.

The European Court of Justice (ECJ) pioneered the exhaustion question in so far as it affected the movement of goods across borders. In 1964, shortly following the formation of the European Community, the ECJ was confronted in *Consten and Grundig* with an attempt by a manufacturer of audio equipment to prevent trade in its products among the member states by invoking parallel trademark rights.²⁰⁷ The ECJ immediately recognized that the goal of European market integration would be inhibited if trademark holders could block the free movement of goods, and at that early stage invoked competition law principles to preclude such action. Subsequently, the ECJ framed its jurisprudence on this subject, fashioning an “intra-Community exhaustion doctrine”, on the basis of the prohibition in the EC Treaty against quantitative restrictions and measures with equivalent effects (Article 28, EC Treaty, 1999 numbering).²⁰⁸

or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.” (453 U.S., at 456)[footnote omitted]

²⁰³ *Kmart v. Cartier*, 486 U.S. 281 (1988).

²⁰⁴ A case sometimes cited to the effect that the U.S. prohibited parallel importation in patented goods is *Boesch v. Graff* 133 U.S. 697 (1890). That case, however, involved goods first sold outside the United States under a “prior user’s” exception to patent rights, and without the consent of the patent holder. (According to the prior user exception, a third person using the invention in good faith prior to the filing of the patent may continue the use of the invention in spite of the granting of the patent.) The potential implications of this decision are analyzed below.

²⁰⁵ See most notably *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.*, 266 F. 71 (2d Cir. 1920) and further cases discussed in Margreth Barrett, *The United States’ Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. KY. L. REV. 911 (2000).

²⁰⁶ See, e.g., *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978).

²⁰⁷ *Consten and Grundig v. Commission*, Cases 56, 58/64, [1966] ECR 299.

²⁰⁸ The entire early history of ECJ jurisprudence on the subject of exhaustion is framed in terms of the tension between Article 30, EC Treaty (prohibiting quantitative restrictions and measures with equivalent effect) and Article 36, EC Treaty (allowing measures to protect IPRs). The EC Treaty was renumbered in 1999, so that former Article 30 is now Article 28, and former Article 36 is now Article 30. This makes for considerable confusion when discussing ECJ jurisprudence in this field.

Prior to the TRIPS Agreement negotiations all EC member states were subject to the “intra-Community” exhaustion rule in all fields of IPR protection.²⁰⁹ There was an extensive body of case law in which the ECJ had refined this rule in particular contexts. For example, the Court recognized that the showing or broadcast of films presented special circumstances that required certain limitations on the general “placing on the market” rule.²¹⁰ In the field of trademarks, the Court allowed parallel traders flexibility in repackaging and labelling pharmaceuticals so long as this did not present a threat to consumer safety.²¹¹ The ECJ further indicated in the context of a decision on rental rights that a certain level of approximation of IPR laws among the member states was necessary to protect the interests of rights holders.²¹² EC member states were thus subject to a uniform rule of “intra-Community” or “regional” exhaustion across all fields of IP (or at least those with a sufficient level of approximation).

Though not free from doubt, the EC rule on patents appeared to contemplate that only goods placed on the market in a member state would be subject to the rule of exhaustion.²¹³ Thus, while the placing of a patented good on the market within the territory of the Community exhausted the patent holder’s rights and allowed free movement within the Community, the placing of a patented good on the market outside the Community did not affect the patent holder’s rights within the Community, and parallel importation could be blocked. EC member states maintained different approaches to international exhaustion in the field of trademarks, and until the adoption of the First Trade Marks Directive in 1988 the ECJ had not sought to impose a uniform approach. EC member states differed on the question whether the Directive mandated a uniform approach to the international exhaustion question.²¹⁴ Prior to the TRIPS Agreement negotiations, member states also maintained different approaches to the international exhaustion question in the field of copyright.²¹⁵ At the outset of the TRIPS negotiations in 1986, the EC did not approach the exhaustion question with a “single voice”.

²⁰⁹ Regarding patents, the leading case was *Centrafarm v. Sterling Drug*, Case 15/74, 1974 ECR 1147.

²¹⁰ See *Coditel SA v. Cine-Vog Films*, Case 62/79, [1980] ECR 881, [1981] CMLR 362, decision of Mar. 18, 1980 (Coditel I); see also *Coditel SA v. Cine-Vog Films*, Case 262/81, [1982] ECR 3381, [1983] 1 CMLR 49, decision of Oct. 6, 1982 (Coditel II) [regarding the potential applicability of former Article 85 EC Treaty on anti-competitive inter-firm agreements to the same facts].

²¹¹ See *Pharmacia & Upjohn SA v. Paranova A/S*, Case C-379/97, 12 Oct. 1999.

²¹² See *Warner Brothers v. Christiansen*, Case 158/86, [1988] ECR 2605, [1990] 3 CMLR 684.

²¹³ See, e.g., *Merck v. Stephar*, Case 187/80, [1981] ECR 2063, [1981] 3 CMLR 463 and *Polydor v. Harlequin Record Shops*, Case 270/80, [1982] ECR 329, [1982] 1 CMLR 677, Feb. 9, 1982 [broadly referring to industrial property rights]; cf. W.R. Cornish, *INTELLECTUAL PROPERTY*, 4th ed. 1999, at 6-15/6-16 [hereinafter Cornish].

²¹⁴ First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC), OJL 040, 11/02/1989 P.0001-0007. These differences were not settled until the ECJ’s decision in *Silhouette v. Hartlauer* in 1998, in which it imposed a mandatory “intra-Community exhaustion” rule in trademarks, to the exclusion of international exhaustion. See discussion below, Section 6.3.

²¹⁵ Cf. Cornish, at 1-59.

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Other countries and regions had also considered the question of national or international exhaustion. Japan²¹⁶ and Switzerland²¹⁷ each had substantial jurisprudence on the subject. The countries of Latin America appeared largely to favour international exhaustion. Decision 85 on Industrial Property of the Andean Commission excluded the right to prevent importation from patent holders, effectively providing for international exhaustion.²¹⁸ Decision 85 established an express rule of regional exhaustion in respect of trademarks.²¹⁹ South Africa maintained a rule of international exhaustion in the fields of patent²²⁰ and trademark.²²¹

Prior to the TRIPS negotiations there had been little in the way of systematic investigation of the potential impact of various exhaustion regimes on international trade and/or economic development. The European Court of Justice had identified that enforcement of national IPRs rules might play an important role in European efforts to integrate markets.

2.2 Negotiating history

2.2.1 Initial proposals

The subject of exhaustion of rights and parallel importation was discussed in the TRIPS Negotiating Group (TNG) on a substantial number of occasions during the Uruguay Round. It is evident from those discussions that delegations perceived the subject matter of importance, and had different views regarding the appropriate outcome. It is important to note that contemporaneous discussions on this subject matter were taking place at WIPO in the context of patent law harmonization negotiations throughout much of the TRIPS negotiations. In neither forum

²¹⁶ Report of Mitsuo Matsushita to Committee on International Trade Law of the International Law Association, noted in Abbott, First Report, Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation*, 1 J. Int'l Econ. L. 607 (1998).

²¹⁷ See Thomas Cottier and Marc Stucki, *Parallelimporte im Patent-, Urheber- und Muster- und Modellrecht aus europarechtlicher und völkerrechtlicher Sicht*, in B. Dutoit (edit.), *Conflits entre importations parallèles et propriété intellectuelle?*, Librairie Droz, Geneva 1996, p. 29 et seq.

²¹⁸ Article 28, Decision 85, provided:

"Article 28. With the limitations stipulated in the present Regulation, the patent shall confer on its owner the right to exploit the invention itself in an exclusive manner; to grant one or more licenses for its exploitation, and to receive royalties or compensation deriving from its exploitation by third persons.

The patent shall not confer an exclusive right to import the patented product or one manufactured under his patented process." [13 Int'l Legal Mat's 1478, 1492 (1974)]

See Frederick M. Abbott, *Bargaining Power and Strategy in the Foreign Investment Process; A Current Andean Code Analysis*, 3 SYR J, INT'L L & COMM. 320, 346–51 (1975).

²¹⁹ Article 75, Decision 85, provided:

"Article 75. The owner of a trademark may not object to the importation or entry of merchandise or products originating in another Member Nation, which carry the same trademark. The competent national authorities shall require that the imported goods be clearly and adequately distinguished with an indication of the Member Nation where they were produced." [13 Int'l L. Mat's 1478, (1974)].

[It is not clear whether this rule was intended to exclude international exhaustion in the field of trademarks.]

²²⁰ See *Stauffer Chemical Company v. Agricura Limited* 1979 BP 168.

²²¹ See Trade Marks Act 1993, Article 34(2)(d).

did governments come close to agreeing on uniform treatment of the exhaustion question.

The initial 1987 U.S. proposal for a TRIPS Agreement did not reference the subject of exhaustion.²²²

A compilation of written and oral submissions regarding trade in counterfeit goods circulated by the GATT Secretariat in April 1988 noted concerns regarding parallel imports. It said:

“27. The question has been raised as to what would be the substantive intellectual property norms by reference to which counterfeit goods should be defined. In this regard the following points have been made:

...

– parallel imports are not counterfeit goods and a multilateral framework should not oblige parties to provide means of action against such goods.”²²³

This compilation noted similar observations concerning the need to preserve rights of parallel importation in connection with border measures and safeguards to protect legitimate trade.²²⁴

The first EC proposal on substantive standards of July 1988 acknowledged the subject matter of exhaustion in regard to trademarks, though not specifically in the import context.²²⁵

Through the course of negotiations in 1989, a number of comments were directed at assuring that any rules developed in regard to border enforcement measures not be applied to parallel import goods, both in respect to copyright and trademark.²²⁶ The Indian delegation specifically objected to a U.S. proposal to provide for national exhaustion in respect of trademarks:

“The representative of India said that he disagreed with the United States proposal in relation to the exhaustion of rights. Referring to paragraph 38 of the Indian paper, he said that the principle of international exhaustion of rights should apply to trademarks.”²²⁷

²²² United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights, Nov. 3, 1987, at Patents (text reprinted in *U.S. Framework Proposal to GATT Concerning Intellectual Property Rights*, 4 BNA INT'L TR. REPTR. 1371 (Nov. 4, 1987)).

²²³ Trade in Counterfeit Goods: Compilation of Written Submissions and Oral Statements, Prepared by the Secretariat, MTN.GNG/NG11/W/23, 26 April 1988.

²²⁴ *Id.*, para. 38(iii).

²²⁵ The EC proposal stated:

“Limited exceptions to the exclusive rights conferred by a trademark, which take account of the legitimate interests of the proprietor of the trademark and of third parties, may be made, such as fair use of descriptive terms and exhaustion of rights.” Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade Related Aspects of Substantive Standards of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/26, July 1988, at III.D.3.b(i).

²²⁶ Note by the Secretariat, Meeting of Negotiating Group of 3–4 July 1989, MTN.GNG/NG11/13, 16 August 1989, e.g., at para. D7; Note by the Secretariat, Meeting of Negotiating Group of 12–14 July 1989, MTN.GNG/NG11/14, 12 September 1989, at para. 26.

²²⁷ *Id.*, Meeting of 3–4 July 1989, at para. 45.

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In 1989, Canada made a proposal to specifically provide for international exhaustion of rights in respect to the protection of layout-designs of integrated circuits.²²⁸

In March 1990, the EC tabled a draft text for a TRIPS Agreement²²⁹ that provoked substantial comment from other delegations on the subject of exhaustion. As stated in a note by the GATT Secretariat:

“Article 4: Customs Unions and Free Trade Areas... The representative of the Community said that the underlying purpose of the Article was to enable the Community to continue to apply the principle of Community exhaustion in respect of trade among the member States.

...

Trademarks. A participant expressed concern that provisions on the very important concepts of parallel imports and exhaustion of rights were absent in the proposed draft agreement. Another participant asked if, under the Community proposal, trademark rights could or could not be used to prevent parallel imports. A further participant was of the view that the proposed Articles on trademarks would enable parallel imports of genuine goods to be prohibited; this conflicted with the Paris Convention and might lead to a division of markets, thus resulting in impediments and distortions of trade.

...

[Patents] Article 24: Rights Conferred. A participant expressed the view that the proposed provisions on rights conferred were not in line with the principles of intellectual property protection, for example because they tried to invalidate parallel imports and the doctrine of exhaustion of rights...²³⁰

A proposal from the United States²³¹ shortly following the EC proposal likewise elicited a significant number of concerns regarding the exhaustion question. According to the GATT Secretariat:

Article 2. [Copyright] ... In answer to a question, he [i.e. the U.S. delegate] said paragraph (2)(b) could be clarified at a later stage, but the intent was that exhaustion of rights in one territory would not exhaust rights elsewhere. In that light, if goods put on the market in one country were exported to another country where exhaustion had not taken place, it would not undermine the rights established by paragraph (2)(a). Some participants said that they were concerned about the introduction of a right of importation, both here and in Article 9(b), since it could affect the right to effect parallel importations; such a right was not called for by the Berne Convention and could in itself give rise to trade distortions, especially in small countries. Another participant felt the relationship between the right of importation and the right of first distribution was not clear, the latter seeming to

²²⁸ Note by the Secretariat, Meeting of Negotiating Group of 30 October-2 November 1989, MTN.GNG/NG11/16, 4 December 1989, at discussion of paragraph 13 of proposal.

²²⁹ European Communities, Draft Agreement on Trade-Related Aspects of Intellectual Property Rights, MTN.GNG/NG11/W/68, 29 March 1990.

²³⁰ Note by the Secretariat, Meeting of Negotiating Group of 2, 4 and 5 April 1990, MTN.GNG/NG11/20, 24 April 1990.

²³¹ Communication from the United States (NG11/W/70).

cover the former. In response to a question, the representative of the United States indicated that paragraph (2)(a) would not prevent imports of legitimate goods.

19. In relation to the proposed provisions on trademarks, a participant expressed concern about the absence of provisions . . . on parallel imports and exhaustion of rights. The following specific points were made in relation to the United States proposal on trademarks:

...

Article 12: Rights Conferred. Answering a query, the representative of the United States said that the last sentence of the first paragraph did not refer to parallel imports. The reason for this formulation was that his delegation had a difficulty with the comparable statement in the Community text which suggested that confusion should not be required where an identical sign was used on an identical good, because it had some difficulty in providing rights in the trademark area where confusion did not exist. The proposal that confusion would be presumed to exist in such cases was aimed at bridging this difference. A participant wondered if “use” of a mark included advertising and distribution and whether it could be presumed that exhaustion of rights would be left to national legislation. Some participants felt that the balance in the second paragraph leant perhaps too strongly towards the interests of international companies and could create uncertainty for domestic industry. . . .”²³²

2.2.2 The Anell Draft

The text prepared and distributed by Chairman Anell in July 1990 contained limited reference to the subject of exhaustion.²³³ It provided:

“4. Exceptions

4A Limited exceptions to the exclusive rights conferred by a trademark, such as fair use of descriptive terms, may be made, provided that they take account of the legitimate interests of the proprietor of the trademark and of third parties.

4B Rights shall be subject to exhaustion if the trademarked goods or services are marketed by or with the consent of the owner in the territories of the PARTIES.

...

SECTION 4: SPECIAL REQUIREMENTS RELATED TO BORDER MEASURES¹

15. Suspension of Release by Customs Authorities

15A Without prejudice to point 21 of this Part, PARTIES shall, in conformity with the provisions set out below, establish procedures according to which a right holder, who has valid grounds for suspecting that the importation of [goods which infringe his intellectual property right] [counterfeit trademark or pirated copyright goods] may take place, may lodge an application in writing with the competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. [This provision does not create an obligation to apply such procedures to parallel imports].”

²³² Note by the Secretariat, Meeting of Negotiating Group of 14-16 May 1990 MTN.GNG/NG11/21, 22 June 1990.

²³³ Status of Work in the Negotiating Group, Chairman’s Report to the GNG, MTN.GNG/NG11/W/76, 23 July 1990 [hereinafter Anell Draft].

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[...]

[Note 1]: It will be made clear at an appropriate place in any agreement that, for the European Communities and for the purposes of this Section, the term “border” is understood to mean the external border of the European Communities with third countries.

2.2.3 The revised Anell Draft

However, subsequent to formal distribution of the July 1990 text, Chairman Anell distributed in October 1990 an informal text that incorporated a revised provision on exhaustion. Although that informal text has not yet been made publicly available, it was commented upon in a TNG meeting of 1 November 1990.

“3. Speaking on behalf of a number of developing countries, a participant welcomed the structure of the paper which, he said, was in line with the mandate provided in the Mid-term Review. By separating the text into two distinct agreements respectively dealing with trade-related aspects of intellectual property rights and trade in counterfeit and pirated goods, the paper conformed to the intent of the Punta del Este negotiating mandate. . . . Regarding its substantive contents, he wished to put on record the view that the paper did not adequately take into account the special needs and problems of developing countries. Flexibility in favour of developing countries was required in any TRIPS agreement, in view of their special developmental and technological needs. . . .

4. Continuing, he then highlighted some provisions of the text which differed from other provisions because the problems involved were of a more fundamental character, while emphasising that this should not be interpreted as an acceptance of provisions he would not mention. . . . He welcomed the inclusion in the text of a general provision on exhaustion, which was a basic principle relating to intellectual property rights and as such should not be subject to any exceptions or conditions which might weaken or invalidate its application. In this connection, he said that it should be clarified throughout the text that any references to exclusive rights of importation implied a right to exclude only infringing goods. Alternatively, the grant of this right should be left to the discretion of Parties.”²³⁴

2.2.4 The Brussels Draft

The Brussels Draft began to approximate the final text of Article 6, but the differences are important and instructive.

“Article 6: Exhaustion³

Subject to the provisions of Articles 3 and 4 above, nothing in this Agreement imposes any obligation on, or limits the freedom of, PARTIES with respect to the determination of their respective regimes regarding the exhaustion of any intellectual property rights conferred in respect of the use, sale, importation or other distribution of goods once those goods have been put on the market by or with the consent of the right holder.

[Footnote 3]: For the purposes of exhaustion, the European Communities shall be considered a single Party.”

²³⁴ Meeting of the Negotiating Group of 1 Nov. 1990, MTN.GNG/NG11/27,14 Nov. 1990.

It may first be noted that the Brussels text was framed in terms of substantive obligations under TRIPS and not as a limitation on dispute settlement on the subject of exhaustion. The later move toward preclusion of dispute settlement is emblematic of the inability of the parties to reach any substantive agreement on the exhaustion issue.

That inability to reach any substantive conclusion may at least in part be explained by the phrase “once those goods have been put on the market by or with the consent of the right holder”. There was considerable debate concerning the scope of the exhaustion doctrine throughout the Uruguay Round. A number of developing countries did not wish to limit application of the doctrine to circumstances in which the IPR holder had consented to placing goods on the market, because there are other circumstances that were considered potentially to exhaust rights, such as sales under compulsory license.

In addition, reference to exhaustion of “rights conferred in respect of the use, sale, importation or other distribution of goods” differed substantially from the formula on exhaustion of rights contemporaneously under negotiation at WIPO in the patent law harmonization context, which is discussed in the next paragraphs.

It is also important to observe that at this stage the EC’s intra-Community exhaustion doctrine would have been expressly addressed in a footnote to Article 6, and this was subsequently dropped.

The negotiating parties ultimately rejected a formula that would have essentially defined the scope of exhaustion doctrine.

Commencing in 1985,²³⁵ a Committee of Experts on the Harmonization of Certain Provisions in Law for the Protection of Inventions was established under the authority of the International (Paris) Union for the Protection of Intellectual Property. As the name of this Committee implies, it was charged with seeking to establish common rules in the field of patents. The scope of this project was initially broad, as governments sought to agree upon harmonized substantive provisions of patent law. In late 1992, the scope of this project was limited by the removal of a number of basic articles from the negotiations.²³⁶

Article 19 of the Committee of Experts Draft Treaty on the Harmonization of Patent Laws (Eighth Session, June 11 to 22, 1990) concerns Rights Conferred by the Patent. The first two paragraphs of the proposal are directed at establishing basic rights in respect to product and process patents. The third paragraph concerns permissible exceptions to patent rights, and the fourth deals with the subject of contributory infringement (not relevant here). The text provides:

“Article 19

(formerly Article 302 [of prior draft text])

Rights Conferred by the Patent

Alternative A

²³⁵ See *WIPO Experts Make Progress On Patent Harmonization Draft*, BNA’s Patent, Trademark & Copyright Journal, Analysis, January 10, 1991, 41 PTCJ 231 (Issue No. 1013), Lexis/Nexis Database, at Introduction.

²³⁶ See Paris Union Assembly, Nineteenth Session, WIPO doc. P/A/XIX/3, July 31, 1992.

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[Products] Where the subject matter of the patent concerns a product, the owner of the patent shall have the right to prevent third parties from performing, without his authorization, at least the following acts:

the making of the product,

the offering or the putting on the market of the product, the using of the product, or the importing or stocking of the product for such offering or putting on the market or for such use.

[Processes] . . .

[Exceptions to Paragraphs (1) and (2)] (a) Notwithstanding paragraphs (1) and (2), any Contracting Party shall be free to provide that the owner of a patent has no right to prevent third parties from performing, without his authorization, the acts referred to in paragraphs (1) and (2) in the following circumstances:

where the act concerns a product which has been put on the market by the owner of the patent, or with his express consent, insofar as such an act is performed after that product has been put on the market in the territory of that Contracting Party, or, in the case of a regional market, in the territory of one of the members States of such group.”

The WIPO draft text would have permitted a state to adopt national or regional exhaustion, but not international exhaustion. This was in fact an issue that remained controversial within the WIPO negotiations until the time the negotiations were suspended. The important aspect for present purposes is that the WIPO text uses a formula for substantively defining the exhaustion principle that is different than that under discussion at the GATT. The WIPO text refers to permitting “acts” in relation to patented products, with reference back to rights otherwise ascribed to the patent holder.

2.2.5 The Dunkel Draft

The Dunkel Draft text of Article 6 distributed in late 1991 is identical to Article 6, TRIPS Agreement.

At a 1998 meeting on the subject of exhaustion of rights and parallel importation, Mr. Adrian Otten, Director of the WTO Intellectual Property Division, who served as Secretary to the Trade Negotiating Group during the Uruguay Round negotiations, presented an oral description of the negotiations. That presentation was summarized in a report on the 1998 meeting:

“Adrian Otten (WTO) – Mr. Otten pointed out that the treatment of exhaustion of rights in the TRIPS Agreement was the subject of difficult and intensive negotiations during the Uruguay Round. The formula in Article 6, TRIPS Agreement, reflects a compromise between governments favoring an explicit recognition of national discretion in regard to exhaustion practices, including the choice of national or international exhaustion, and governments not wanting to provide such recognition although not seeking to regulate such practices specifically. The penultimate proposed formula would have indicated that the TRIPS Agreement did not address the issue of exhaustion of rights, while the final formula indicates that for purposes of dispute settlement under the TRIPS Agreement, nothing in that Agreement (subject to articles 3 and 4) will be used to address the issue of

exhaustion. Both sides to the negotiations preferred the final formula. Mr. Otten observed that earlier proposals, on the one hand, for a provision restricting the scope for parallel imports in situations where prices had been influenced by government measures such as price controls and for a specific rule providing rights against parallel imports in the copyright area and, on the other hand, a provision requiring international exhaustion, at least in the trademark area, were rejected during these negotiations. In a subsequent comment from the floor, Mr. Otten indicated that he remains to be convinced that provisions of WTO agreements outside the TRIPS Agreement may not be used to address national laws on the exhaustion of IPRs, where the treatment accorded depends on the geographical origin of the goods rather than the nationality of the persons involved.”²³⁷

3. Possible interpretations

Interpretation of Article 6 is among those aspects of TRIPS that have been most intensively discussed and written about. There are two main areas of controversy, although one of these has been definitively resolved by the Doha Declaration on the TRIPS Agreement and Public Health (see discussion below).

“For the purposes of dispute settlement under this Agreement . . . ”

The first clause refers specifically to “dispute settlement under this Agreement.” Rights in intellectual property may have effects in other areas of WTO regulation. For example, technology protected by IPRs may be part of a technical standard that is regulated by the Agreement on Technical Barriers to Trade (TBT Agreement). The conformity of a technical standard with the TBT Agreement may be challenged in dispute settlement. The plain language of Article 6 suggests that rules of TRIPS might be used to address an exhaustion of IPRs issue in dispute settlement under the TBT. Moreover, the question of exhaustion is intricately connected with the free movement of goods, as recognized early on by the European Court of Justice. An IPR may have the same effects as a quota. There is a possibility for a Member to assert that a rule of national exhaustion that permitted IPRs holders to block importation of goods is inconsistent with Article XI, GATT 1994, that provides:

“1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained [. . .]”

The plain language of Article 6 appears to allow a GATT panel to evaluate an IPR as a measure with the equivalent effect of a quota. This possibility is acknowledged

²³⁷ Remarks of Adrian Otten in Frederick M. Abbott, *Second Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of the Exhaustion of Intellectual Property Rights and Parallel Importation*, presented in London, July 2000, at the 69th Conference of the International Law Association, rev. 1.1 [hereinafter “Second Report”] (posted at <http://www.ballchair.org>).

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by several leading TRIPS experts who were closely involved in the Uruguay Round negotiations.²³⁸

Other TRIPS experts have argued that the Agreement constitutes a “lex specialis” or self-contained set of rules applicable to IPRs and trade regulation, and that the exhaustion question could not be examined by a GATT panel.²³⁹ There is no WTO DSB jurisprudence on this issue, and for the time being the subject matter is open. However, the Appellate Body has placed great reliance on the plain language and meaning of the WTO Agreements, and the plain meaning certainly appears to support the view that the issue of exhaustion and relevant TRIPS rules could be examined in a dispute under an agreement other than TRIPS.

Another aspect of the first clause is that it is directed to WTO dispute settlement, and so does not directly preclude actions before national courts on exhaustion issues. This limitation was argued by certain Members and their industry groups to be synonymous with saying that Members are not permitted to adopt their own policies and rules on the subject of exhaustion, but rather that rules on this subject are established by TRIPS. Most prominently, pharmaceutical industry associations argued that Article 28, TRIPS Agreement, establishing the rights of patent holders, including to prevent importation, precluded adoption of an international exhaustion policy in the field of patents.

The argument that TRIPS precludes Members from adopting their own policies and rules on the subject of exhaustion is inconsistent with the terms of the Agreement, the practice of WTO Members, and the negotiating history of the Agreement.

Article 6 says that the rules of the Agreement may not be used to address the subject of exhaustion for purposes of WTO dispute settlement. This suggests that the rules of the Agreement may be used to address the subject in national court proceedings. It does not, however, say that Members are restricted in their choice of exhaustion policies, and these are very different matters.

Article 28, for example, grants patent holders the right to prevent third parties from importing patent protected goods without their consent. It does not, however, prescribe a rule as to how their consent will be determined. In Members that have adopted a rule of national exhaustion, consent only exhausts rights as to goods placed on the market within the territory of that Member. In Members that have adopted a rule of regional exhaustion, consent affects goods placed on the market in any Member within the regional group. In Members that have adopted a rule of international exhaustion, consent affects goods placed on the market anywhere in the world. TRIPS does not prescribe a rule regarding the geographic basis on which consent is determined, and clearly allows for international exhaustion.

²³⁸ See Thomas Cottier, *The WTO System and the Exhaustion of Rights*, draft of November 6, 1998, for Conference on Exhaustion of Intellectual Property Rights and Parallel Importation in World Trade, Geneva, Nov. 6-7, 1998, Committee on International Trade Law, and Remarks of Thomas Cottier, in Second Report, and Remarks of Adrian Otten in Second Report, taking the position that Article 6 does not preclude application of the GATT 1994 or GATS to issues involving parallel importation.

²³⁹ See Marco C.E.J. Bronckers, *The Exhaustion of Patent Rights under World Trade Organization Law*, 32 J. WORLD TR. L. 32 (1998) and Remarks of Marco Bronckers and Remarks of William Cornish, Second Report.

Footnote 6 to Article 28, TRIPS Agreement, provides: “This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6.” This indicates that the right of importation granted to patent holders under Article 28 may not be used to address the subject matter of exhaustion in dispute settlement under TRIPS. In other words, no Member may be challenged in the WTO for adopting an international exhaustion rule based on the word “import” in Article 28.

At the time TRIPS was negotiated, GATT Contracting Parties applied different rules of exhaustion, often varying with the field of IPR protection.²⁴⁰ There is no suggestion in the negotiating history of the TRIPS Agreement that Members reached agreement on uniform exhaustion rules at the time of its conclusion. Moreover, as noted later, since TRIPS entered into force, Members have continued to adopt and apply different exhaustion policies.²⁴¹

If there was any doubt whether Article 6 prevents Members from adopting their own policies and rules on the subject of exhaustion of IPRs, this doubt was firmly eliminated by paragraph 5(d) of the Doha Declaration on the TRIPS Agreement and Public Health, which provides:

“(d) The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.”²⁴²

The express recognition that Members may establish their own exhaustion regime does not, however, resolve all interpretative issues under Article 6. The main question remaining “on the table” involves whether Members must limit their recognition of the basis for exhaustion to IPR protected goods or services placed on the market with the “consent” of the right holder.

IPRs generally confer on right holders the right to prevent others from taking acts in relation to the IPR, such as selling an IPR protected product. The rationale behind basing exhaustion on the consent of the right holder is that the right holder has voluntarily surrendered its right to prevent the undertaking of the relevant act. Once the right holder “consents”, it may no longer “prevent”. The concept of exhaustion of IPRs is that the right holder is not granted a perpetual or indefinite right of consent, but rather a limited right.

IPR holders may suggest that limiting or interfering with their right to consent is a violation of fundamental rights in property. Since exhaustion signals an end to control over the good or service protected by the IPR, to exhaust without consent is an impermissible taking of rights in property.

Governments do not, however, confer absolute rights in IPRs. All IPRs are subject to exceptions in the public interest. Some exceptions are potentially more intrusive than others.

One circumstance that is often suggested as a basis for exhaustion without the consent of the IPRs holder is compulsory licensing. TRIPS acknowledges that

²⁴⁰ See discussion above, Section 2.1.

²⁴¹ See, e.g., discussion of the domestic legislation of various WTO Members, below, Section 6.1.

²⁴² See WT/MIN(01)/DEC/W/2 of 14 November 2001.

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governments may grant compulsory licenses, and establishes controls on terms and processes involved in granting them. Some TRIPS experts take the view that the first sale or marketing of an IPR protected good exhausts the IPR in the same manner as consent to the first sale or marketing, and that WTO Members may adopt international exhaustion rules that recognize compulsory licensing as the basis for exhaustion. Other TRIPS experts take the view that consent of the IPR holder is the only acceptable basis for an international exhaustion policy. The latter view is largely rooted in the concept of territoriality. The suggestion is that IPR holders outside the Member that grants a compulsory license should not have their right to prevent a first sale (that is, their “property right”) affected by that Member’s decision. To allow one Member to make exhaustion decisions that affects other Members would place too much power in the hands of the first Member.²⁴³

Although allowing international exhaustion based on compulsory licensing does place power in the hands of the granting Member, since TRIPS permits each Member to determine its own policy and rules on the exhaustion issue, it is not clear why there is a threat to importing Members. They are not required to recognize compulsory licensing as the basis for exhaustion, but they may do so.

A liberal approach to international exhaustion would recognize the “lawful” or “legitimate” placing of IPR protected goods or services on the market anywhere in the world as exhausting the right of importation. As noted earlier, there are exceptions to IPR protection other than provided by compulsory licensing, such as those recognized under Article 30, TRIPS Agreement. Consider a product placed on the market in the European Community under a so-called prior user’s exception to patent rights.²⁴⁴ The prior user of the invention acts without the consent of the patent holder, but the goods placed on the market are treated for internal market purposes just as if the patent holder had authorized the marketing. Should WTO Members outside the EC be required to differentiate in their exhaustion policies as between goods first marketed by the patent holder and goods first marketed by the prior user?

The text of Article 6 does not provide a definitive answer to the scope that Members may give to their doctrine of exhaustion, and this may argue in favour of allowing recognition of compulsory licensing, for example, as a basis.

Although Article 6 provides that nothing in TRIPS should be used to address exhaustion of IPRs, it does not define “exhaustion”. If a Member adopts an exhaustion policy or rules that another Member considers to extend the concept beyond reasonable limits, there would not appear to be a bar to challenging that interpretation in dispute settlement.

... subject to the provisions of Articles 3 and 4. . . .

²⁴³ As with other aspects of IPRs and exhaustion policy, the rules respecting compulsory licensing might differ depending on the form of protection.

²⁴⁴ According to the prior user exception, a third person using the invention in good faith prior to the filing of the patent may continue the use of the invention in spite of the granting of the patent.

Article 6 is not without express limitations. The exhaustion policy and rules of Members is subject to Articles 3 and 4, TRIPS Agreement.²⁴⁵

Application of the TRIPS national treatment provision to exhaustion doctrine suggests that Members must treat foreign nationals on at least an equivalent basis as local nationals regarding protection of IPRs by exhaustion rules. From a right holder's perspective, this would suggest that a Member may not apply a doctrine of international exhaustion that allows importation as regards foreign IPRs holders, and apply a doctrine of national exhaustion that prevents importation as regards local IPRs holders. This would assure that foreign nationals do not face greater competition from lower priced products than local nationals.

Application of the TRIPS MFN principle to exhaustion doctrine suggests that Members must not apply different exhaustion rules to nationals of different Members. Thus, for example, if the United States applies a doctrine of international exhaustion to IPRs held by Chinese nationals, it must apply the same rule to IPRs held by nationals of the EC. On the assumption that the nationals of Members are most likely to hold the IPRs relating to goods produced in their countries of origin, as a practical matter this means that imports from China and imports from the EU should be subject to the same U.S. rules on exhaustion.

Regional exhaustion doctrines could be considered not consistent with the basic MFN principle in TRIPS because they accord a different status in practical effect to goods imported from countries within the region than to countries from outside the region. In this case, right holders within Members that are part of the region may suffer *vis-à-vis* right holders in Members outside the region. A right holder whose good is first placed on the market outside the region may be able to block import into a Member of the region (and control the distribution of its product), while a right holder within the region could not prevent an importation from another Member within the region. This raises the interesting question whether a national of an EC member state or another regional arrangement could succeed on a claim that it was subject to less protection of IPRs than a national residing outside the EC. The EC claims that Article 4(d) allows it to discriminate against IPR holders residing within the region by precluding them from preventing the intra-Community free movement of goods and services.

4. WTO jurisprudence

None of the WTO Dispute Settlement Body, Appellate Body nor any panel has been asked to interpret Article 6. There are no dispute settlement decisions that discuss it.

However, as noted above, Ministers meeting in Doha adopted the Declaration on the TRIPS Agreement and Public Health that expressly addresses "the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property." Paragraph 5(d) of the Doha Declaration does not limit its reference to Article 6 precisely to account for arguments from some Members and industry groups that other Articles (such as Article 28) override it by implication.

²⁴⁵ For a consideration of the purpose and effect of these Articles addressing national and MFN treatment, respectively, see Chapter 4.

5. Relationship with other international instruments

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Although there is some debate among legal experts as to precisely the character that should be ascribed to the Doha Declaration, there is no doubt that it will be taken into account by decision-making bodies in the context of dispute settlement. The Ministers clearly acted in Doha with a purpose, and there would be no reason to “recognize” an interpretation of the TRIPS Agreement if they did not intend this recognition to influence interpretation of the Agreement. The legal character of the Doha Declaration is discussed further in Chapters 6 and 33.²⁴⁶

5. Relationship with other international instruments

5.1 WTO Agreements

As discussed earlier, Article 6 specifically refers to settlement of disputes under the TRIPS Agreement. This leaves open the possibility that provisions of TRIPS relevant to the issue of exhaustion of rights will be applied in dispute settlement under other WTO Agreements.

As also mentioned, a claim might arise under the GATT 1994 that enforcement of IPRs to prevent importation of goods involves application of measures equivalent to quotas. If a Member permitted the adoption of a technical standard that incorporates IPR-protected subject matter, questions might arise regarding the extent to which the IPR-holder could control use or modification of the standard, implicating TRIPS rules relevant to exhaustion under the TBT Agreement. Since audio-visual services, as example, frequently incorporate IPR protected elements, it is certainly possible that a GATS dispute could implicate provisions of TRIPS relevant to exhaustion.

The relationship between TRIPS provisions relevant to exhaustion, including Article 6, and other WTO Agreements, remains to be determined in dispute settlement. There are different views among legal experts regarding whether Article 6 precludes exhaustion issues from being considered under other WTO Agreements. The “plain text” of Article 6 does not appear to preclude TRIPS rules relevant to exhaustion from being applied in dispute settlement under other agreements, but this does not exclude the possibility that TRIPS will be found to “occupy the field” of exhaustion subject matter as a special agreement governing trade and IPRs subject matter, or *lex specialis*.

5.2 Other international instruments

In December 1996 two new treaties with respect to intellectual property rights were adopted at WIPO: the Copyright Treaty (WCT) and the Performances and Phonograms Treaty (WPPT).²⁴⁷ These two treaties include provisions with respect

²⁴⁶ See Section 6.2 (International instruments) of both Chapters; see also F. Abbott, *The Doha Declaration on the TRIPS Agreement and Public Health: Lighting A Dark Corner at the WTO*, in: *Journal of International Economic Law* (2002), 469–505.

²⁴⁷ World Intellectual Property Organization: Copyright Treaty [adopted in Geneva, Dec. 20, 1996], 36 I.L.M. 65 (1997) and World Intellectual Property Organization: Performances and Phonograms Treaty [adopted in Geneva, Dec. 20, 1996], 36 I.L.M. 76 (1997).

to the exhaustion of rights that, like Article 6,²⁴⁸ reflect lack of agreement among governments on a unified approach to exhaustion of rights issues.²⁴⁹ Several of the “agreed statements” to each of the WIPO Copyright Treaty and the WPPT address issues related to the issue of exhaustion, for example, by attempting to clarify distinctions between rights to redistribute physical copies of protected works and digital copies of such works.²⁵⁰

The WCT and WPPT are not incorporated in TRIPS, and their rules (including agreed statements) are not subject to WTO dispute settlement. At present, there are a limited number of state parties to these agreements. However, it is possible that in the future these agreements will have sufficiently wide adherence among WTO Members that a dispute settlement panel or the AB might look to them as evidence of state practice in interpreting related copyright provisions of TRIPS.

6. New developments

6.1 National laws

There have been a considerable number of national and regional court decisions on the subject of exhaustion of rights since the entry into force of TRIPS.

6.1.1 Australia and New Zealand

Australia and New Zealand each adopted legislation permitting parallel importation of works protected by copyright. The legislation adopted by Australia distinguishes among different types of copyrighted works.²⁵¹ In June 2000, the

²⁴⁸ Article 6 of the Copyright Treaty provides:

(1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.

(2) *Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.* [italics added]

Article 8 of the Performances and Phonograms Treaty provides:

(1) Performers shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their performances fixed in phonograms through sale or other transfer of ownership.

(2) *Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the fixed performance with the authorization of the performer.* [italics added]

²⁴⁹ The Committee of Experts that prepared proposals for the treaties offered two alternative draft provisions: one that would have excluded international exhaustion, and one that would have permitted each treaty party to adopt an international exhaustion rule. See Chairman of the Committee of Experts, Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works to be Considered by the Diplomatic Conference, WIPO Doc. CRNR/DC/4, Aug. 30, 1996, at Article 8.

²⁵⁰ For example, with respect to Article 6 of the Copyright Treaty as quoted above there was adopted an “Agreed statement concerning Articles 6 and 7”, providing: “As used in these Articles, the expressions ‘copies’ and ‘original and copies,’ being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects.”

²⁵¹ See Chris Creswell, *Recent Developments in Australia and New Zealand*, paper [furnished following Committee meeting of November 6–7, 1998]. See also, Abraham Van Melle, *Parallel*

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government of Australia announced, following the recommendation of its Intellectual Property and Competition Review Committee, that it would further liberalize its rule of international exhaustion in the field of copyright by eliminating a requirement that importers await the Australian copyright holder's release of the work on the local market.²⁵²

6.1.2 Japan

In 1997 in the *BBS* case,²⁵³ the Japanese Supreme Court held that the right under the Japanese Patent Act of a patent holder in Japan to block importation of a patented product was exhausted when the product was first sold abroad, subject to the possible imposition of contractual restrictions to the contrary.

6.1.3 South Africa

The South Africa Medicines and Related Substances Control Amendment Act of 1997 included a provision permitting the Minister of Health to establish the conditions under which parallel importation of patented medicines would be authorized. Since South Africa recognized international exhaustion as to patents as a matter of its common law, and since there was no indication that the parliament intended to change this rule when it amended the Patent Act to implement TRIPS, it is unlikely that Section 15C of the Medicines Amendment Act made new law in South Africa, except to provide regulatory authority to the Health Minister. Nonetheless, this legislation regarding parallel importation provoked intense diplomatic protest from the United States and European Community, and a lawsuit by 39 pharmaceutical companies (which also addressed other provisions of the Medicines Amendments Act). The challenges to the Medicines Amendment Act were withdrawn in 2001.

6.1.4 Other developing countries

A recent WIPO report identifies developing countries with regard to whether their legislation (a) allows for compulsory licensing and (b) adopts national or international exhaustion in respect to IPRs.²⁵⁴

Importing in New Zealand: Historical Origins, Recent Developments, and Future Directions, [1999] EIPR 63.

²⁵² See Fourteenth Copyright Newsletter of the Intellectual Property Branch of the Attorney-General's Department, <http://law.gov.au/copyright_enews>, June 29, 2000:

"The Government announced on 27 June 2000 that it will amend the Copyright Act 1968 to allow for parallel importation of legitimately produced books, periodicals, printed music, and software products including computer-based games. When implemented, this decision will remove the legal impediment imposed by the Copyright Act on Australian importers obtaining these products and making them available to consumers as soon as they are released anywhere in the world. They will not be obliged to wait for the Australian copyright owners to release them in Australia."

²⁵³ *BBS Kraftfahrzeugtechnik AG and BBS Japan, Inc. v. Rasimex Japan, Inc.*, Supreme Court Heisei 7 (o) No. 1988 (July 1, 1997), J. of S. Ct., No. 1198 (July 15, 1997).

²⁵⁴ See Legislative Assistance provided by the World Intellectual Property Organization (WIPO) in relation to the Implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) and the Doha Declaration, at <<http://www.wipo.int/cfdiplaw/en/trips/index.htm>>, visited 8 April 2004.

6.1.5 Switzerland

A 1999 decision, *Kodak v. Jumbo-Markt*,²⁵⁵ by the Swiss Federal Supreme Court specifically addressed the question whether Article 6 permitted each WTO Member to adopt its own exhaustion regime in the field of patents, and found that it did.²⁵⁶ The Swiss Supreme Court decided in favour of national exhaustion (rather than international exhaustion) for patents in Switzerland (based on its interpretation of existing national legislation), although it has adopted a rule of international exhaustion for copyright and trademark.

In 1998 the Swiss Federal Supreme Court in the *Nintendo*²⁵⁷ case extended Switzerland's rule of international exhaustion in the field of trademarks²⁵⁸ to the field of copyrighted works. In the *Nintendo* case, a producer of video games holding parallel copyright protection in Switzerland and the United States sought to block the importation into Switzerland of games first placed on the market in the United States with its consent. The Swiss Federal Court found no basis for adopting a different approach with regard to copyright than it had adopted in respect to trademarks in the *Chanel* case (decided in 1996). It said that the holder of parallel copyrights made the decision upon which market to first place its work, and that it received its economic return from this first marketing.²⁵⁹

6.1.6 United States

The weight of expert opinion during the Uruguay Round and after was that the United States followed a doctrine of international exhaustion in the field of

²⁵⁵ *Kodak SA v. Jumbo-Markt AG*, 4C.24/1999/rnd, December 7, 1999.

²⁵⁶ In the *Kodak* case, the Swiss Supreme Court found:

"3 b) Pursuant to Article 28 of the TRIPs Agreement, the patent holder has inter alia the right to prevent third parties selling patented objects and importing such for this purpose. This provision with its protection of imports merely lays down that the import of products that infringe the patent must be prohibited, without itself laying down a prohibition on parallel imports. This follows not only from Article 6 of the TRIPs Agreement but is also clarified in a reference to Article 6 in a footnote to Article 28 of the Agreement (GATT Message 1, 1994 Federal Gazette IV, p. 301/2; cf. also Bollinger, *Die Regelung der Parallelimporte im Recht der WTO*, sic! 1998, p. 548; Alesch Staehelin, *Das TRIPs-Abkommen*, 2nd ed., Bern 1999, p. 57 et seq. and 148/9; Cottier & Stucki, loc. cit., p. 52; Cohen Jehoram, *International Exhaustion versus Importation Right: a Murky Area of Intellectual Property Law*, 1996 GRUR Int., p. 284). The claim expressed occasionally in the literature that the substantive protection of importation practically requires national exhaustion through the TRIPs Agreement is not, on the other hand, convincing (argued by Straus, *Bedeutung des TRIPs für das Patentrecht*, 1996 GRUR Int., p. 193/4); for the attempt to derive the exclusive application of national exhaustion from this agreement ignores and misinterprets the objectives of the agreement to establish the World Trade Organisation dated April 15, 1994, one element of which is the TRIPs Agreement, namely to eliminate all kinds of trade restrictions. On the contrary, TRIPs is intended to balance two sets of interests, namely the demand for the freedom of trade on the one hand and an increased protection of intellectual property rights on the other hand (Bronckers, *The Exhaustion of Patent Rights under WTO Law*, Journal of World Trade 1998, p. 144). Exhaustion, and hence the question of whether in particular parallel imports can be prohibited by the party entitled to the patent, is not, however, regulated by Article 28 of TRIPs, but expressly reserved to national law pursuant to Article 6 of the Agreement (cf. also Kunz-Hallstein, *Zur Frage der Parallelimporte im internationalen gewerblichen Rechtsschutz*, 1998 GRUR, p. 269/70)."

²⁵⁷ *Imprafot AG v. Nintendo Co. et al.*, Swiss Federal Supreme Court, No. 4C.45/1998/zus, July 20, 1998.

²⁵⁸ *Chanel SA, Geneva and Chanel SA, Glarus v. EPA SA*, BGE 122 II 469, Oct. 23, 1996.

²⁵⁹ See Carl Baudenbacher, *Trademark Law and Parallel Imports in a Globalized World – Recent Developments in Europe with Special Regard to the Legal Situation in the United States*, 22 Fordham Int'l L. J. 645 (1999), at 688 [hereinafter Baudenbacher].

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patents. However, in late 2001, the Court of Appeals for the Federal Circuit (CAFC) rendered a decision, *Jazz Photo v. ITC*, (CAFC 2001) 264 F.3d 1094, that appears to overrule earlier precedent on this subject, and pending future developments before the Supreme Court, may be understood to reflect the current rule.

The case involved an appeal to the U.S. Court of Appeals for the Federal Circuit of a decision by the International Trade Commission in a Section 337 action initiated by Fuji Photo. Fuji sought to prevent importation of used disposable cameras in which third parties had replaced film. Some of those disposable cameras were first sold in the United States (and exported for film replacement), and some were first sold abroad. Fuji holds a number of patents on the disposable cameras in the United States and elsewhere.

The CAFC held that Fuji exhausted its patent rights concerning the disposable cameras when they were first sold, and it could not prevent third parties from refurbishing and reselling them. However, it went on to hold (in a brief conclusory statement) that exhaustion of the patent holder's rights only took place regarding products that had been first sold in the United States,²⁶⁰ saying:

“Fuji states that some of the imported LFFP cameras originated and were sold only overseas, but are included in the refurbished importations by some of the respondents. The record supports this statement, which does not appear to be disputed. United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent. See *Boesch v. Graff*, 133 U.S. 697, 701–703, 33 L. Ed. 787, 10 S. Ct. 378 (1890) (a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States). Our decision applies only to LFFPs for which the United States patent right has been exhausted by first sale in the United States. Imported LFFPs of solely foreign provenance are not immunized from infringement of United States patents by the nature of their refurbishment.” (264 F.3d 1094,1105)

The CAFC held that Fuji could not prevent importation of cameras that had first been sold in the United States, exported for repair, then re-imported. However, since U.S. patent rights as to cameras first sold outside the United States were not exhausted, importation of cameras first sold and repaired outside the United States could be blocked.²⁶¹

²⁶⁰ Much of the CAFC decision involves the question whether the actions by third parties constitute “repair” or “reconstruction” as a matter of U.S. patent law. Under existing doctrine, a patent holder may not prevent a third party from “repairing” a patented product that has been first sold, but may prevent the “reconstruction” of a product. Reconstruction is treated as the equivalent of “making” a new product, and therefore to be within the acts the patent holder may prevent.

The ITC decided that the acts performed by third parties constituted reconstruction, and that importation of the used and reconstructed disposable cameras should be generally prohibited. The CAFC disagreed with the ITC's legal analysis, holding that the acts performed by third parties constituted “repair”, and therefore were permitted as to disposable cameras that had been first sold. That is, the rights of the patent holders to exercise control over repair of the cameras had been “exhausted” when they were first sold.

²⁶¹ This analysis by the CAFC may not adequately address pre-existing U.S. law on patents and parallel importation. As is well known among those familiar with U.S. case law on the question of exhaustion, the Supreme Court's decision in *Boesch v. Graff* in 1890 involved limited and different

6.2 International instruments

See discussion of WIPO treaties, Section 5.2, above.

6.3 Regional and bilateral contexts

6.3.1 Regional

In 1998 the European Free Trade Area (EFTA) Court decided the *Maglite* case.²⁶² In this case, the holder of parallel trademarks in Norway and the United States sought to block the importation into Norway (by an unrelated party) of a product initially placed on the U.S. market with the trademark holder's consent.²⁶³ The EFTA Court recognized that European Economic Area (EEA) countries are generally bound to follow European Union jurisprudence regarding intellectual property, including the rule of intra-EEA exhaustion. The EFTA Court held, however, that since EFTA is a free trade area lacking a common external commercial policy, while the EU is a customs union adhering to a common external commercial policy, that each EFTA country is entitled to adopt its own rule with respect to the international exhaustion of trademark rights. Norway was thus entitled to follow its longstanding rule in favour of international exhaustion.

circumstances than those in the present case. In *Boesch*, the inventor of a lamp burner held parallel patents in Germany and the United States. Under German law, there was a "prior use" exception that allowed a third party to lawfully manufacture and sell a patented product in Germany. The goods (lamp burners) that were sold in Germany and sent to the United States were made and sold by a party other than the patent holder under the prior use exception. The U.S. patent holder had not placed the goods on the market in Germany, and had not exhausted its U.S. patent rights with respect to those goods.

Since *Boesch*, there have been several important Court of Appeals decisions holding that the United States follows a doctrine of international exhaustion of patent rights. Among the most important of these is the decision of the Court of Appeals for the Second Circuit in *Curtiss Aeroplane v. United Aircraft*, 266 F. 71 (2d. Cir. 1920). In that case, a holder of U.S. patents on aircraft components had licensed the British government to produce aircraft in Canada (for use in the First World War). After the war, the British government sold some of the aircraft it had produced to a third party that imported them into the United States for resale. The Second Circuit held that the U.S. patent holder, in consenting to the use of its patent for the manufacture of airplanes in Canada, had exhausted its right to control the importation of the resulting aircraft into the United States.

While there has been some conflicting case law at the district court level on the question of international exhaustion of patent rights, the most comprehensive analysis of the case law finds that the U.S. follows a doctrine of international exhaustion in respect to patents (see Margreth Barrett, above), that is, at least until *Jazz Photo*. In *Jazz Photo*, the CAFC states a principle which it derives from *Boesch v. Graff*, but that case has previously and properly been limited and distinguished by other Courts of Appeal. The CAFC fails to take note of this contrary pre-existing case law.

²⁶² *MAG Instrument Inc. v. California Trading Co. Norway, Ulsteen*, Case E-2/97, 1997 Rep. EFTA Ct. 127, [1998] 1 C.M.L.R. 331.

²⁶³ According to Prof. Baudenbacher:

The plaintiff in the proceedings before the Fredrikstad City Court (Fredrikstad Byrett), Mag Instrument, Inc., was a U.S. company that produces and sells the so-called Maglite lights. In Norway, Viking International Products A/S, Oslo, was the authorized sole importer and sole distributor for those products. The trademark was registered in Norway in the plaintiff's name. The defendant, California Trading Company Norway, Ulsteen, had imported Maglite lights directly from the United States into Norway for sale in Norway, without the consent of the plaintiff. The plaintiff brought proceedings against the defendant before the national court, arguing that the imports infringed its exclusive trademark rights. (Baudenbacher, at 650)

6. New developments

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In *Silhouette v. Hartlauer*,²⁶⁴ decided in 1998, the European Court of Justice (ECJ) considered whether the First Trade Marks directive prescribed a uniform rule of intra-EC exhaustion in the field of trade marks. This case involved an action by an Austrian trademark holder to prevent the importation into Austria of goods that it had exported and sold to an unrelated purchaser in Bulgaria (outside the EEA). A third party sought to export the same goods from Bulgaria and resell them in Austria without the consent of the Austrian trademark holder. The ECJ interpreted Article 7(1) of the First Trade Marks Directive to mandate that member states of the EU (and EEA) follow a rule of intra-EU exhaustion of trademark rights, and that the Directive precluded the member states from adopting a rule of international exhaustion. Austria was therefore precluded by the Trade Marks Directive from continuing to follow its rule of international exhaustion in the field of trademarks.²⁶⁵

Since EC directives and regulations regarding IPRs adopted before and after conclusion of TRIPS generally include the same legal formula regarding intra-Community exhaustion of rights as is found in the First Trade Marks Directive, it is most likely that those directives and regulations will be determined to mandate that EC member states exclusively apply rules of regional exhaustion.²⁶⁶

6.3.2 Bilateral

Paragraph 5(d) of the Doha Declaration on the TRIPS Agreement and Public Health confirmed the right of WTO Members to adopt their own policies and rules on the subject of exhaustion of rights. However, since the adoption of the Declaration several countries have entered into bilateral “free trade” agreements that obligate them to prevent parallel importation of patented products, at least when the patent holder has included a territorial limitation on the distribution of the product by contract or “other means”.²⁶⁷ As discussed in Chapter 2, TRIPS establishes minimum standards of IPR protection, but leaves Members discretion

²⁶⁴ *Silhouette International Schmied Gesellschaft mbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, [1998] 2 C.M.L.R. 953. Advocate General Francis Jacobs recommended to the ECJ that it decide the First Trade Marks Directive required EEA member states to exclusively follow a rule of intra-Union exhaustion. The opinion of the Advocate General was critically analyzed in Frederick M. Abbott and D.W. Feer Verkade, *The Silhouette of a Trojan Horse: Reflections on the Advocate General Jacobs’ Opinion in Silhouette v. Hartlauer*, *Bijblad bij De Industriële Eigendom* 111, Apr. 16, 1998 and W. R. Cornish, *Trade Marks: Portcullis for the EEA?*, 20 EIPR 172, May 1998.

²⁶⁵ In a follow on decision to *Silhouette*, the ECJ held that a trademark holder placing goods on the market outside the EC might by implication authorize parallel importation into the EC market (that is, relinquish its right to prevent importation), but that consent by implication must be unequivocally demonstrated. *Davidoff v. Levi Strauss and Tesco Stores v. Levi Strauss*, Joined Cases C-414/99 to C-416/99.

²⁶⁶ See, e.g., the Copyright Directive, Biotechnology Directive, Rental Rights Directive, Database Directive.

²⁶⁷ For example, the U.S.–Morocco FTA provides at Article 15.9: PATENTS

“15.9 (4) Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory [footnote 9][fn. 9 – A Party may limit application of this paragraph to cases where the patent owner has placed restrictions on import by contract or other means.]”

See also, a comparable provision in the U.S.–Australia FTA, at Article 17.9(4).

to adopt higher standards. TRIPS does not preclude Members from agreeing to relinquish rights to permit parallel importation. Yet, it seems inconsistent with the spirit of the Doha Declaration that Members that have agreed on the multilateral level to national autonomy in the determination of exhaustion policy would have been asked to relinquish that autonomy as part of a package of bilateral trade concessions.

6.4 Proposals for review

The adoption of the Doha Declaration on the TRIPS Agreement and Public Health resolved the question whether WTO Members are permitted to adopt their own regimes regarding exhaustion of rights (see above, Section 3). There are no present proposals to reopen this issue.

However, the relationship between rules on exhaustion of patent rights and proposals to facilitate price discrimination in favour of developing countries to address public health needs has resulted in renewed discussion concerning the extent to which restrictions on parallel trade may be desirable in certain contexts. These issues are being considered in the context of continuing negotiations regarding implementation of paragraph 6 of the Doha Declaration.

7. Comments, including economic and social implications

There is considerable debate regarding the economic and social implications of different exhaustion of rights regimes.²⁶⁸ It is important to acknowledge at the outset that the same conclusions may not apply to all forms of IPRs, or for that matter to different goods and services protected by these different forms. There may or may not be a single optimum exhaustion rule. With that said, there are a few general observations that can be made.

First, rules of exhaustion are designed to foster competition among producers, and to benefit consumers. Exhaustion of IPRs limits the legal capacity of producers to control the movement of goods and services after the first sale or lawful placing on the market, and reduces the potential for trade-restrictive (including anti-competitive) behaviours. As a “first principle”, it is to the consumer’s advantage that exhaustion of rights is accepted.

In the international setting, there are two main arguments made by proponents of limiting exhaustion and parallel importation. The first is that by allowing IPR holders to segregate markets and charge different prices, producers can achieve higher rates of return on their investments in intellectual property. This will permit producers to reinvest greater amounts in the creation of new and better goods and services, which is to the benefit of consumers.

²⁶⁸ See, e.g., Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation*, 1 J. Int’l Econ. L. 607 (1998); Keith Maskus, *Parallel Imports in Pharmaceuticals: Implications for Competition and Prices in Developing Countries*, Final Report to the World Intellectual Property Organization, draft of April 2001; Commission on Macroeconomics and Health, CMH Working Paper Series, Paper No. WG4:1 – Scherer, F.M. and Watal, Jayashree, *Post-TRIPS Options for Access to Patented Medicines in Developing Countries*, June 2001.

7. Comments, including economic and social implications

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Similar arguments are often made to promote higher levels of IPR protection generally, and there is good reason to be sceptical about the need for higher levels of protection and increasing returns to IPR-holders at a cost to the public of higher prices.

A second argument is that parallel imports hurt developing country interests because, if goods placed on the market in developing countries can freely flow to developed countries, producers will refrain from charging lower prices in developing countries.

It is curious that some developed countries that are the most aggressive promoters of liberal trade – which is about maintaining free movement of goods and services, competitive markets and operation of comparative advantage – favour market segregation and differential pricing when it comes to IPRs and parallel trade. It is difficult to reconcile the view that open markets benefit developing countries by allowing them access to developed markets for their low-production cost products, and the view that low-priced goods must remain in developing countries. If it is correct that price discrimination as a general proposition favours developing countries, this might imply that liberal trade rules are not the most beneficial for them.

As a general proposition, international exhaustion of IPRs may be the principle most consistent with fostering competition, specialization and global economic welfare (assuming that economists would not advocate a rethinking of the foundations of the WTO system). Yet does this mean that price discrimination will never benefit developing countries? Probably not. There are circumstances in which it may be desirable to limit inter-country price competition to promote the interests of consumers in developing countries, such as when the prospects for developing countries to establish their own globally competitive sources of supply are limited.²⁶⁹ There may not be many such cases, and even those cases may result from IPR protection granted to developed country technologies. The point is, however, that there may be exceptional cases in which the advantages of an international exhaustion regime would be outweighed by competing developing country consumer interests. In such cases it may be possible to grant an exception to the otherwise applicable rules, rather than opting for a closed exhaustion regime that on the whole disadvantages developing countries.

The argument by some developed countries that rules allowing parallel trade harm developing country interests because such rules inhibit the sale of lower priced goods in many cases proceeds from a false factual premise. Perhaps paradoxically, goods and services are often sold in developing countries at prices higher than in developed countries, and developing country consumers will benefit from importing from the developed countries.

²⁶⁹ For example, the Commission on Intellectual Property Rights established by the British government recommended that supply of patented pharmaceuticals to developing countries at lower differential prices might be facilitated if developed countries prevented parallel importation of those medicines. The Commission, however, recommended that developing countries continue to allow parallel importation of patented medicines to assure the lowest cost source of supply. IPR Commission, at Chpt. 2.

6: Objectives and Principles

Article 7 Objectives

The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

Article 8 Principles

1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.
2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

1. Introduction: terminology, definition and scope

An article of a treaty establishes rights and obligations for the parties. A general principle of treaty interpretation is that terms are presumed not to be surplus. Words are in a treaty for a reason and should be given their ordinary meaning in its context.²⁷⁰ When the negotiators of the TRIPS Agreement

²⁷⁰ See, e.g., the decision of the WTO Appellate Body in *United States – Standards for Reformulated and Conventional Gasoline*, WT/DS2/9 20 May 1996, in which the AB said:

“Applying the basic principle of interpretation that the words of a treaty, like the *General Agreement*, are to be given their ordinary meaning, in their context and in the light of the treaty’s object and purpose, the Appellate Body observes that the Panel Report failed to take adequate account of the words actually used by Article XX in its several paragraphs.” *Id.*, at page 18.

2. History of the provision

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decided to include specific articles on “Objectives” and “Principles” in the agreement, they presumably did so with the goal of establishing rights and/or obligations.

Articles 7 and 8 have been invoked by Members to support rather different views of the purposes of TRIPS. The articles reflect the tensions inherent in the negotiations. Developing country Members have expressed considerable concern that only one side of the Agreement’s objectives are pursued by developed Members, these being the objectives relating to the protection of technology “assets”, while the stated objectives “that the protection and enforcement of intellectual property rights should contribute to the promotion” of transferring technology and actively promoting developmental interests are relegated to a secondary, and perhaps even illusory, status.

On 14 November 2001, WTO Members meeting in Doha adopted a Ministerial Declaration on the TRIPS Agreement and Public Health that bears directly on Articles 7 and 8. The implications of this Declaration for these provisions is described and analysed in Section 6.2.1, below.

2. History of the provision

2.1 Situation pre-TRIPS

Articles 7 and 8 of TRIPS establish the objectives and principles of this particular Agreement. Since TRIPS brought the regulation of intellectual property rights into the GATT, and now WTO, multilateral trading system for the first time,²⁷¹ there is no pre-TRIPS situation in respect to the objectives and principles of the Agreement. In other words, the objectives and principles of the TRIPS are unique to the Agreement.

The pre-TRIPS Agreement situation with respect to international governance of IPRs involved treaties administered by WIPO and other institutions. Even with respect to more detailed treaties like the Berne Convention, the pre-TRIPS international situation largely left discretion to regulate IPRs in the hands of each state, taking into account the domestic regulatory interests of the state. TRIPS represented a dramatic shift in that situation, taking away a great deal of internal regulatory discretion, and potentially shifting the pre-existing balance of internal interests. In light of this rather dramatic shift, the elaboration of objectives and principles in Articles 7 and 8 may well be viewed as a means to establish a balancing of interests at the multilateral level to substitute for the balancing traditionally undertaken at the national level.

Neither the Paris nor Berne Convention included provisions analogous to Articles 7 and 8. That is, there are no provisions that act to establish an overarching set of principles regarding the interpretation and implementation of the agreement.

²⁷¹ As noted elsewhere in this book, there were a few provisions in the GATT 1947 that concerned unfair competition, and Article XX(d) provided an exception for measures taken to protect IP. There was, however, no attempt in the agreement to establish substantive IPR standards.

2.2 Negotiating history

2.2.1 Early proposals²⁷²

2.2.1.1 The USA. The initial November 1987 United States “Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights” included a section that addressed the objectives of the agreement:

“Objective. The objective of a GATT intellectual property agreement would be to reduce distortions of and impediments to legitimate trade in goods and services caused by deficient levels of protection and enforcement of intellectual property rights. In order to realize that objective all participants should agree to undertake the following:

- Create an effective economic deterrent to international trade in goods and services which infringe intellectual property rights through implementation of border measures;
- Recognize and implement standards and norms that provide adequate means of obtaining and maintaining intellectual property rights and provide a basis for effective enforcement of those rights;
- Ensure that such measure to protect intellectual property rights do not create barriers to legitimate trade;
- Extend international notification, consultation, surveillance and dispute settlement procedures to protection of intellectual property and enforcement of intellectual property rights;
- Encourage non-signatory governments to achieve, adopt and enforce the recognized standards for protection of intellectual property and join the agreement.”²⁷³

2.2.1.2 The EC. A proposal of Guidelines and Objectives submitted by the European Community to the TRIPS Negotiating Group in July 1988 also addressed the general purposes of an agreement, stating *inter alia*:

“... the Community suggests that the negotiations on substantive standards be conducted with the following guidelines in mind:

- they should address trade-related substantive standards in respect of issues where the growing importance of intellectual property rights for international trade requires a basic degree of convergence as regards the principles and the basic features of protection;
- GATT negotiations on trade related aspects of substantive standards of intellectual property rights should not attempt to elaborate rules which would substitute

²⁷² The proposals from the United States and European Community, as well as the statement by the Indian delegate that follow, also are reproduced in Chapter 1 regarding the preamble to the TRIPS Agreement. However, these elements of the negotiating history bear directly on the development of Articles 7 and 8, as well as the Preamble, and are repeated here for the convenience of the reader.

²⁷³ Suggestion by the United States for Achieving the Negotiating Objective, United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/14, 20 Oct. 1987, Nov. 3, 1987.

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for existing specific conventions on intellectual property matters; contracting parties, could, however, when this was deemed necessary, elaborate further principles in order to reduce trade distortions or impediments. The exercise should largely be limited to an identification of an agreement on the principles of protection which should be respected by all parties; the negotiations should not aim at the harmonization of national laws;

– the GATT negotiations should be without prejudices to initiatives that may be taken in WIPO or elsewhere. . . .”²⁷⁴

2.2.1.3 India. In July 1989, India submitted a detailed paper that elaborated a developing country perspective on the objective of the negotiations. It concluded:

“It would . . . not be appropriate to establish within the framework of the General Agreement on Tariffs and Trade any new rules and disciplines pertaining to standards and principles concerning the availability, scope and use of intellectual property rights.”²⁷⁵

At a meeting of the TRIPS Negotiating Group in July 1989, the objectives and principles of the agreement were discussed. As reported by the Secretariat, India was among those countries that made a fairly detailed intervention:

“5. In his statement introducing the Indian paper, the representative of India first referred to recent action by the United States under its trade law and recalled the serious reservations of his delegation about the relevance and utility of the TRIPS negotiations as long as measures of bilateral coercion and threat continued. Subject to this reservation, his delegation submitted the paper circulated as document NG11/W/37, setting out the views of India on this agenda item. At the outset, he emphasised three points. First, India was of the view that it was only the restrictive and anti-competitive practices of the owners of the IPRs that could be considered to be trade-related because they alone distorted or impeded international trade. Although India did not regard the other aspects of IPRs dealt with in the paper to be trade-related, it had examined these other aspects in the paper for two reasons: they had been raised in the various submissions made to the Negotiating Group by some other participants; and, more importantly, they had to be seen in the wider developmental and technological context to which they properly belonged. India was of the view that by merely placing the label “trade-related” on them, such issues could not be brought within the ambit of international trade. Secondly, paragraphs 4(b) and 5 of the TNC decision of April 1989 were inextricably inter-linked. The discussions on paragraph 4(b) should unambiguously be governed by the socio-economic, developmental, technological and public interest needs of developing countries. Any principle or standard relating to IPRs should be carefully tested against these needs of developing countries, and it would not be appropriate

²⁷⁴ Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade Related Aspects of Substantive Standards of Intellectual Property Rights, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/26, July 1988, at II. The EC proposal stated that it was not intended to indicate a preference for a “code” approach. *Id.*, at note 1.

²⁷⁵ Communication from India, Standards and Principles Concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights, MTN.GNG/NG11/W/37, 10 July 1989.

for the discussions to focus merely on the protection of the monopoly rights of the owners of intellectual property. Thirdly, he emphasised that any discussion on the intellectual property system should keep in perspective that the essence of the system was its monopolistic and restrictive character. This had special implications for developing countries, because more than 99 per cent of the world's stock of patents was owned by the nationals of the industrialised countries. Recognising the extraordinary rights granted by the system and their implications, international conventions on this subject incorporated, as a central philosophy, the freedom of member States to attune their intellectual property protection system to their own needs and conditions. This freedom of host countries should be recognised as a fundamental principle and should guide all of the discussions in the Negotiating Group. . . . Substantive standards on intellectual property were really related to socio-economic, industrial and technological development, especially in the case of developing countries. It was for this reason that GATT had so far played only a peripheral role in this area and the international community had established other specialised agencies to deal with substantive issues of IPRs. The Group should therefore focus on the restrictive and anti-competitive practices of the owners of IPRs and evolve standards and principles for their elimination so that international trade was not distorted or impeded by such practices."²⁷⁶

The Indian position was debated extensively, with a substantial number of developing delegations lending their support.

2.2.2 The Anell Draft

The main body of the Anell text (as opposed to its Annex)²⁷⁷ included a draft with respect to "Principles", which is a "B" text (i.e. developing country-supported).

"8. Principles

8B.1 PARTIES recognize that intellectual property rights are granted not only in acknowledgement of the contributions of inventors and creators, but also to assist in the diffusion of technological knowledge and its dissemination to those who could benefit from it in a manner conducive to social and economic welfare and agree that this balance of rights and obligations inherent in all systems of intellectual property rights should be observed.

8B.2 In formulating or amending their national laws and regulations on IPRs, PARTIES have the right to adopt appropriate measures to protect public morality, national security, public health and nutrition, or to promote public interest in sectors of vital importance to their socio-economic and technological development.

8B.3 PARTIES agree that the protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and enhance the international transfer of technology to the mutual advantage of producers and users of technological knowledge.

²⁷⁶ Note by the Secretariat, Meeting of Negotiating Group of 12–14 July 1989, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/14, 12 September 1989.

²⁷⁷ For an explanation of the Anell Draft, see the explanatory note on the methodology at the beginning of this volume.

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8B.4 Each PARTY will take the measures it deems appropriate with a view to preventing the abuse of intellectual property rights or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology. PARTIES undertake to consult each other and to co-operate in this regard.²⁷⁸

Most of the elements of Articles 7 and 8 can be identified in Article 8B, above, although some elements of Articles 7 and 8 can also be found in the Annex.²⁷⁹ It is significant that the developing country proposal for objectives and principles

²⁷⁸ Chairman's Report to the GNG, Status of Work in the Negotiating Group, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/76, 23 July 1990.

²⁷⁹ The Annex (see also Chapter 1) provided:

"This Annex reproduces tel quel Parts I, VI, VII and VIII of the composite draft text which was circulated informally by the Chairman of the Negotiating Group on 12 June 1990. The text was prepared on the basis of the draft legal texts submitted by the European Communities (NG11/W/68), the United States (NG11/W/70), Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Uruguay, and subsequently also sponsored by Pakistan and Zimbabwe (NG11/W/71), Switzerland (NG11/W/73), Japan (NG11/W/74) and Australia (NG11/W/75).

"PART I: PREAMBULAR PROVISIONS; OBJECTIVES

1. Preamble (71); Objectives (73)

1.1 Recalling the Ministerial Declaration of Punta del Este of 20 September 1986; (73)

1.2 Desiring to strengthen the role of GATT and its basic principles and to bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines; (73)

1.3 Recognizing that the lack of protection, or insufficient or excessive protection, of intellectual property rights causes nullification and impairment of advantages and benefits of the General Agreement on Tariffs and Trade and distortions detrimental to international trade, and that such nullification and impairment may be caused both by substantive and procedural deficiencies, including ineffective enforcement of existing laws, as well as by unjustifiable discrimination of foreign persons, legal entities, goods and services; (73)

1.4 Recognizing that adequate protection of intellectual property rights is an essential condition to foster international investment and transfer of technology; (73)

1.5 Recognizing the importance of protection of intellectual property rights for promoting innovation and creativity; (71)

1.6 Recognizing that adequate protection of intellectual property rights both internally and at the border is necessary to deter and persecute piracy and counterfeiting; (73)

1.7 Taking into account development, technological and public interest objectives of developing countries; (71)

1.8 Recognizing also the special needs of the least developed countries in respect of maximum flexibility in the application of this Agreement in order to enable them to create a sound and viable technological base; (71)

1.9 Recognizing the need for appropriate transitional arrangements for developing countries and least developed countries with a view to achieve successfully strengthened protection and enforcement of intellectual property rights; (73)

1.10 Recognizing the need to prevent disputes by providing adequate means of transparency of national laws, regulations and requirements regarding protection and enforcement of intellectual property rights; (73)

1.11 Recognizing the need to settle disputes on matters related to the protection of intellectual property rights on the basis of effective multilateral mechanisms and procedures, and to refrain from applying unilateral measures inconsistent with such procedures to PARTIES to this PART of the General Agreement; (73)

1.12 Recognizing the efforts to harmonize and promote intellectual property laws by international organizations specialized in the field of intellectual property law and that this PART of the General Agreement aims at further encouragement of such efforts; (73)

became operative provisions of TRIPS (i.e., Articles 7 and 8), while the largely developed country proposals set out in the Annex were reflected in the more general statement of intent (i.e., the Preamble). Because articles of a treaty are intended to establish rights and obligations, Articles 7 and 8 should carry greater weight in the process of implementation and interpretation.

2.2.3 The Brussels Draft

The draft text of the TRIPS Agreement transmitted to the Brussels Ministerial Conference on the Chairman Anell's initiative in December 1990 reorganized the July 1990 proposal on "Principles" into Articles 7 ("Objectives") and 8 ("Principles").²⁸⁰ The Brussels Draft retained significant portions of the developing country proposals, but in doing so added language that limited the range of public policy options. This was accomplished through the use of a "do not derogate" formula in Articles 8.1 and 8.2.

On Article 7, the Brussels Draft provided:

"The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations."

2. Objective of the Agreement (74)

2A The PARTIES agree to provide effective and adequate protection of intellectual property rights in order to ensure the reduction of distortions and impediments to [international (68)] [legitimate (70)] trade. The protection of intellectual property rights shall not itself create barriers to legitimate trade. (68, 70)

2B The objective of the present Agreement is to establish adequate standards for the protection of, and effective and appropriate means for the enforcement of intellectual property rights; thereby eliminating distortions and impediments to international trade related to intellectual property rights and foster its sound development. (74)

2C With respect to standards and principles concerning the availability, scope and use of intellectual property rights, PARTIES agree on the following objectives:

(i) To give full recognition to the needs for economic, social and technological development of all countries and the sovereign right of all States, when enacting national legislation, to ensure a proper balance between these needs and the rights granted to IPR holders and thus to determine the scope and level of protection of such rights, particularly in sectors of special public concern, such as health, nutrition, agriculture and national security. (71)

(ii) To set forth the principal rights and obligations of IP owners, taking into account the important inter-relationships between the scope of such rights and obligations and the promotion of social welfare and economic development. (71)

(iii) To facilitate the diffusion of technological knowledge and to enhance international transfer of technology, and thus contribute to a more active participation of all countries in world production and trade. (71)

(iv) To encourage technological innovation and promote inventiveness in all countries. (71)

(v) To enable participants to take all appropriate measures to prevent the abuses which might result from the exercise of IPRs and to ensure intergovernmental co-operation in this regard. (71)"

Chairman's Report to the GNG, Status of Work in the Negotiating Group, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/76, 23 July 1990.

²⁸⁰ 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.

3. Possible interpretations

With respect to Article 8.1, the Brussels Draft provided:

“1. Provided that PARTIES do not derogate from the obligations arising under this Agreement, they may, in formulating or amending their national laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development.”

With respect to Article 8.2, the Brussels Draft provided:²⁸¹

“2. Appropriate measures, provided that they do not derogate from the obligations arising under this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.”

2.2.4 The Dunkel Draft

With respect to Article 7, there was no change from the Brussels to the Dunkel Draft and the final TRIPS text.

With respect to Article 8.1, there was only one change to the Brussels Draft made in the Dunkel Draft text, and that was adopted in the final TRIPS Agreement. The Dunkel Draft of late 1991 and final TRIPS Agreement texts move the first clause of the Brussels Draft Article 8.1 (as quoted above) to the end of the paragraph, and use the legal formula, “provided that such measures are consistent with the provisions of this Agreement.” The difference between an undertaking not to derogate, on the one hand, and to act consistently, on the other, is difficult to discern. Regarding Article 8.2, the “do not derogate” formula of the Brussels Draft was also modified in the Dunkel Draft text to a “consistent with” formula.

No significant changes to the Dunkel Draft texts were made in the TRIPS Agreement.

3. Possible interpretations

3.1 Article 7 (Objectives)

Article 7 of TRIPS provides:

The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

IPRs have been designed to benefit society by providing incentives to introduce new inventions and creations.²⁸² Article 7 makes it clear that IPRs are not an end

²⁸¹ For the negotiating history of Article 8.2, TRIPS Agreement, see also Part 3 (IPRs and Competition), Section 2.2.

²⁸² Correa, Carlos, *Formulating Effective Pro-development National Intellectual Property Policies*, Trading in Knowledge. Bellmann, C., Dutfield, G. and Meléndez-Ortiz, R., London, 2003, Earthscan: 9, 209.

in themselves. It sets out the objectives that member countries should be able to reach through the protection and enforcement of such rights. The wording of Article 7 (“The protection . . . should contribute . . .”) suggests that such a protection does not automatically lead to the effects described therein. In introducing IPR protection, countries should frame the applicable rules so as to promote technological innovation and the transfer and dissemination of technology “in a manner conducive to social and economic welfare”.²⁸³ IPRs are unlikely to promote innovation in countries with low scientific and technological capabilities, or where capital to finance innovative activities is lacking. The concept of “mutual advantage of producers and users of technological knowledge” is of particular importance in this context, since developing countries are largely *users* of technologies produced abroad.²⁸⁴

Article 7 provides guidance for the interpreter of the Agreement, emphasizing that it is designed to strike a balance among desirable objectives. It provides support for efforts to encourage technology transfer, with reference also to Articles 66 and 67. In litigation concerning intellectual property rights, courts commonly seek the underlying objectives of the national legislator, asking the purpose behind establishing a particular right. Article 7 makes clear that TRIPS negotiators did not mean to abandon a balanced perspective on the role of intellectual property in society. TRIPS is not intended only to protect the interests of right holders. It is intended to strike a balance that more widely promotes social and economic welfare.

3.2 Article 8 (Principles)

Article 8.1 provides:

1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.

Article 8.1 establishes a basis for the adoption of internal measures in language similar to that used in Article XX(b) of the GATT 1994. However, Article XX(b) of the GATT 1994 is used to justify internal measures which are necessary yet otherwise inconsistent with the GATT 1994. Article 8.1, by way of contrast, provides that necessary measures must be “consistent with” the Agreement.

Since language of a treaty is presumed not to be surplus, it would appear that Article 8.1 is to be read as a statement of TRIPS interpretative principle: it advises that Members were expected to have the discretion to adopt internal measures they consider necessary to protect public health and nutrition, and to promote the

²⁸³ “Transfer” generally refers to the *transmission* of technology in a bilateral context (e.g. a licensing agreement), while “dissemination” rather alludes to the *diffusion* of innovation. IPRs normally reduce the diffusion of innovations as the title-holder charges prices above marginal costs in order to take advantage from the exclusive rights he enjoys.

²⁸⁴ Interestingly, although TRIPS covers trademarks and copyrights, it only refers in Article 7 to “technological” knowledge.

3. Possible interpretations

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public interest in sectors of vital importance to their socio-economic and technological development. The constraint is that the measures they adopt should not violate the terms of the agreement. This suggests that measures adopted by Members to address public health, nutrition and matters of vital socio-economic importance should be presumed to be consistent with TRIPS, and that any Member seeking to challenge the exercise of discretion should bear the burden of proving inconsistency. Discretion to adopt measures is built into the agreement. Challengers should bear the burden of establishing that discretion has been abused.

The reference to “promot[ing] the public interest in sectors of vital importance to their socio-economic and technological development” places substantial discretion in the hands of WTO Members regarding the kinds and subject matter of measures that may be adopted in the context of Article 8.1. Sectors of vital importance may vary from country to country and region to region, and the provision is not limited to implementation by developing countries. So long as sectors and measures are identified in good faith, the sovereign discretion of the Member adopting such measures should be accepted.

This statement of principle in Article 8.1 should prove important in limiting the potential range of non-violation nullification or impairment causes of action that might be pursued under TRIPS.²⁸⁵ Article 8.1 indicates that Members were reasonably expected to adopt such TRIPS-consistent measures. In this regard, developed Members may not succeed with claims that their expectations as to the balance of concessions have been frustrated.

Article 8.2 provides:

2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

This Article to a large extent reflects the view advanced by the Indian delegation, among others, during the Uruguay Round negotiations that a main objective of TRIPS should be to provide mechanisms to restrain competitive abuses brought about by reliance on IPR protection.

Like Article 8.1, Article 8.2 includes the requirement that measures taken should be “consistent with” TRIPS. It is complementary to Article 40 that addresses anticompetitive licensing practices or conditions that restrain trade.²⁸⁶ Article 31, regarding compulsory licensing of patents, also deals specifically with the application of measures to remedy anticompetitive practices.²⁸⁷

²⁸⁵ Note that the moratorium concerning the applicability of non-violation complaints under TRIPS has been extended to the Sixth Ministerial Conference in December 2005. See Chapter 32, providing interpretation favourable to a continuing exclusion of such complaints in the TRIPS context. The same Chapter analyzes in detail the implications of non-violation complaints in the TRIPS context.

²⁸⁶ For a detailed analysis of both Article 8.2 and Article 40, see Chapter 29.

²⁸⁷ For details, see Chapter 25.

TRIPS does not place significant limitations on the authority of WTO Members to take steps to control anticompetitive practices.²⁸⁸

4. WTO jurisprudence

The Preamble and Articles 7 and 8 were given modest attention by the parties (including third countries) and panel in the *Canada – Generics* dispute.²⁸⁹ The panel said:

“(b) Object and Purpose

7.23 Canada called attention to a number of other provisions of the TRIPS Agreement as relevant to the purpose and objective of Article 30. Primary attention [footnote] was given to Articles 7 and 8.1. . . .

In the view of Canada, . . . Article 7 above declares that one of the key goals of the TRIPS Agreement was a balance between the intellectual property rights created by the Agreement and other important socio-economic policies of WTO Member governments. Article 8 elaborates the socio-economic policies in question, with particular attention to health and nutritional policies. With respect to patent rights, Canada argued, these purposes call for a liberal interpretation of the three conditions stated in Article 30 of the Agreement, so that governments would have the necessary flexibility to adjust patent rights to maintain the desired balance with other important national policies.

The EC did not dispute the stated goal of achieving a balance within the intellectual property rights system between important national policies. But, in the view of the EC, Articles 7 and 8 are statements that describe the balancing of goals that had already taken place in negotiating the final texts of the TRIPS Agreement. According to the EC, to view Article 30 as an authorization for governments to ‘renegotiate’ the overall balance of the Agreement would involve a double counting of such socio-economic policies. In particular, the EC pointed to the last phrase of Article 8.1 requiring that government measures to protect important socio-economic policies be consistent with the obligations of the TRIPS Agreement. The EC also referred to the provisions of first consideration of the Preamble and Article 1.1 as demonstrating that the basic purpose of the TRIPS Agreement was to lay down minimum requirements for the protection and enforcement of intellectual property rights.

In the Panel’s view, Article 30’s very existence amounts to a recognition that the definition of patent rights contained in Article 28 would need certain adjustments. On the other hand, the three limiting conditions attached to Article 30 testify strongly that the negotiators of the Agreement did not intend Article 30 to bring about what would be equivalent to a renegotiation of the basic balance of the Agreement. Obviously, the exact scope of Article 30’s authority will depend on the specific meaning given to its limiting conditions. The words of those conditions

²⁸⁸ See Frederick M. Abbott, *Are the Competition Rules in the WTO TRIPS Agreement Adequate?*, 7 J Int’l Econ. L No. 3, 2004, at 687–703.

²⁸⁹ *Canada – Patent Protection of Pharmaceutical Products*, Report of the Panel, WT/DS114/R, March 17, 2000 (hereinafter “Canada-Generics”).

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must be examined with particular care on this point. Both the goals and the limitations stated in Articles 7 and 8.1 must obviously be borne in mind when doing so as well as those of other provisions of the TRIPS Agreement which indicate its object and purposes.”

[Footnote]: Attention was also called to the text of the first recital in the Preamble to the TRIPS Agreement and to part of the text of Article 1.1. The Preamble text in question reads:

‘Desiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, *and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.*’ (emphasis added by Canada)

Part of the Article 1.1 text referred to reads:

‘Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal systems and practice.’

When it analyzed the relationship between Article 27.1 and Article 30 of the TRIPS Agreement, the panel employed Articles 7 and 8.1 in its analysis, stating:

“7.92 . . . Beyond that, it is not true that Article 27 requires all Article 30 exceptions to be applied to all products. Article 27 prohibits only discrimination as to the place of invention, the field of technology, and whether products are imported or produced locally. Article 27 does not prohibit bona fide exceptions to deal with problems that may exist only in certain product areas. Moreover, to the extent the prohibition of discrimination does limit the ability to target certain products in dealing with certain of the important national policies referred to in Articles 7 and 8.1, that fact may well constitute a deliberate limitation rather than a frustration of purpose. It is quite plausible, as the EC argued, that the TRIPS Agreement would want to require governments to apply exceptions in a non-discriminatory manner, in order to ensure that governments do not succumb to domestic pressures to limit exceptions to areas where right holders tend to be foreign producers.” [emphasis added]

The panel suggests that Articles 7 and 8.1, and the policies reflected in those articles, are bounded by the principle of non-discrimination in Article 27.1 with respect to patents. Presumably the panel is invoking the specific non-discrimination requirement of Article 27.1 as a control on the more general policies stated in Articles 7 and 8.1, and also invoking the consistency requirement of Article 8.1. It is not clear how far this idea of giving precedence to specific obligations over more general policies should be extended.²⁹⁰

²⁹⁰ It is also important to recall that the panel in the same paragraph says that *bona fide* exceptions may apply to certain product areas (i.e. fields of technology), thus establishing the critical distinction between bad faith “discrimination” on one hand, and good faith “differentiation” on the other.

5. Relationship with other international instruments

5.1 WTO Agreements

The objectives and principles of TRIPS must be considered in relation to the objectives of the WTO Agreement, which is reflected in its preamble. In addition to promoting general economic growth compatible with sustainable development, the preamble of the WTO Agreement:

“Recogniz[es] further that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development,”

In fact, most of the WTO agreements include provisions regarding special and differential treatment for developing countries. Since Articles 7 and 8 refer to development objectives, it may be useful in the context of dispute settlement to cross-reference developmental objectives and principles of the appropriate agreements.

5.2 Other international instruments

The objectives and principles set forth in Articles 7 and 8 are supported by a myriad of other international instruments that promote economic development, transfer of technology, social welfare (including nutritional and health needs), and so forth. Human rights instruments, such as the International Covenant on Economic, Social and Cultural Rights, support a number of the same objectives and principles as Articles 7 and 8. The various agreements of the International Labour Organization, and the charter of the World Health Organization, support the development-oriented objectives and principles of TRIPS. In the implementation of TRIPS and in any dispute settlement proceedings it will be useful to establish the supportive links between the objectives and principles stated in Articles 7 and 8, and the objectives and principles of other international instruments. The Appellate Body, as noted in Chapter 1 (Section 4 on the “Shrimp-Turtles” case), has moved firmly away from the notion of the WTO as a “self-contained” legal regime, and the establishment of support in other international instruments may help persuade the AB to recognize and give effect to developmental priorities.

6. New developments

6.1 National laws

6.2 International instruments

6.2.1 The Doha Declaration on the TRIPS Agreement and Public Health

The Declaration on the TRIPS Agreement and Public Health adopted by Ministers at Doha on 14 November 2001 includes important statements regarding the objectives and principles of TRIPS.²⁹¹

²⁹¹ See WT/MIN(01)/DEC/W/2 of 14 November 2001.

6. New developments

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Operative paragraph 4 of the Doha Declaration can be understood as directed to elaborating on the meaning of Article 8.1. It provides:

“4. We agree that the TRIPS Agreement does not and should not prevent Members from taking measures to protect public health. Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the Agreement can and should be interpreted and implemented in a manner supportive of WTO Members’ right to protect public health and, in particular, to promote access to medicines for all.

In this connection, we reaffirm the right of WTO Members to use, to the full, the provisions in the TRIPS Agreement, which provide flexibility for this purpose.”

The first important point regarding this paragraph is that it is stated in the form of an agreement (i.e., “we agree”). Since this statement was adopted by consensus of the Ministers, and since the operative language is in the form of an agreement, this may be interpreted as a “decision” of the Members under Article IX.1 of the WTO Agreement. Although paragraph 4 is not an “interpretation” in the formal sense since it was not based on a recommendation of the TRIPS Council pursuant to Article IX:2 of the WTO Agreement, a decision that states a meaning of the Agreement should be considered as a very close approximation of an interpretation and, from a functional standpoint, may be indistinguishable.

The statement that TRIPS “does not . . . prevent Members . . . from taking measures to protect public health” might be interpreted as a broad mandate to developing and least developed Members to take whatever steps they consider appropriate to addressing public health concerns. An aggressive interpretation would be that developing Members are free, for example, to override patent protection as the situation demands, without constraint by TRIPS. However, the broad mandate is qualified by the second clause of this paragraph that reaffirms the right of Members to use the existing flexibility in TRIPS “for this purpose”. It can be argued that the opening statement merely affirms that TRIPS allows Members to address public health concerns within the framework of the rules established by the Agreement. This is reinforced by the opening phrase of paragraph 5 (see below).

The second sentence of paragraph 4 indicates that TRIPS “can and should be interpreted and implemented . . . to promote access to medicines for all”. This would imply that the Agreement should not be used to maintain prices that are unaffordable to the poor. This again would imply that patent protection may be limited in order to provide lower priced access to medicines, but is qualified by the second sentence of paragraph 4 (and paragraph 5).

In the second sentence of paragraph 4, Members reiterate their commitment to TRIPS, and in the third sentence Members indicate that the Agreement contains certain flexibilities. This suggests that the existing language of TRIPS is not intended to be overridden or superseded by the Declaration, despite the strong first sentence of paragraph 4.

The first part of paragraph 5 of the Declaration provides:

“5. Accordingly and in the light of paragraph 4 above, while maintaining our commitments in the TRIPS Agreement, we recognize that these flexibilities include:

(a) In applying the customary rules of interpretation of public international law, each provision of the TRIPS Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles.”

Paragraph 5(a) states an interpretative principle that has already been enunciated by the panel in the Canada-Generics case, and that would already be understood by operation of Article 31 of the Vienna Convention on the Law of Treaties. By particularizing reference to objectives and principles, the Declaration appears indirectly to reference Articles 7 and 8 and this may have the effect of elevating those provisions above the preamble of TRIPS for interpretative purposes.²⁹²

6.3 Regional and bilateral contexts

6.4 Proposals for review

The Doha Declaration on the TRIPS Agreement and Public Health (see above) followed meetings of the Council for TRIPS that included substantial discussion of the objectives and principles of TRIPS. It is understood that those initial meetings are part of a continuing process of examining the impact of TRIPS on public health.²⁹³

A number of developing countries have indicated that the implementation of Article 7 should be examined in the Council for TRIPS in the context of determining whether TRIPS is fulfilling the objective of contributing to the dissemination and transfer of technology.²⁹⁴

7. Comments, including economic and social implications

Article 7 recognizes that IPRs are intended to achieve a balance among social welfare interests, including interests in the transfer of technology, and the interests of producers.

TRIPS does not contain a general safeguard measure comparable to Article XX of the GATT 1994 or Article XIV of the GATS. For those other Multilateral Trade Agreements (MTAs), the necessity to protect human life or health may take priority over the generally applicable rules of the agreement, subject only to general principles of non-discrimination. Yet when it comes to intellectual property, the “exceptions” are circumscribed with various procedural or compensatory encumbrances, making their use more difficult. Article 8.1 contains language similar to

²⁹² The TRIPS Agreement preamble might be understood to place a somewhat greater weight on the interests of intellectual property rights holders than on public interests.

²⁹³ A number of developing countries have suggested that Article 8.1 of the TRIPS Agreement might be made consistent with Article XX(b) of the GATT 1994 that permits exceptional measures that are otherwise inconsistent with the agreement. Although it is not clear whether the Council for TRIPS will consider this issue since it was at least partially addressed in the Doha Declaration, it is a potential agenda item.

²⁹⁴ While reference to reaffirming commitments under Article 66.2 was made in the Doha Declaration, this reference relates to encouraging actions by enterprises and institutions in favour of least developed Members. For more details on Article 66.2, see Chapter 34.

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that of GATT Articles XX and GATS Article XIV, yet it demands consistency rather than tolerating inconsistency. What accounts for this difference in approach? Proponents of high levels of IPR protection argue this is necessary to protect against abuse of exceptions, and that IPRs such as patents represent a special case. Article XX of GATT has been invoked to prevent fleets of fishing vessels from operating in ways injurious to dolphins and sea turtles. Yet there is no comparable provision in TRIPS that allows Members to generally suspend IPR protection to allow the manufacture and distribution of vitally needed medicines to save human lives. This distinction poses a fundamental question regarding the nature of the WTO. One that is unlikely to go away soon.

PART 2: SUBSTANTIVE OBLIGATIONS

7: Copyright Works

Article 9 Relation to the Berne Convention

1. Members shall comply with Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto. However, Members shall not have rights or obligations under this Agreement in respect of the rights conferred under Article 6bis of that Convention or of the rights derived therefrom.
2. Copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such.

1. Introduction: overview, terminology, definition and scope

1.1 Overview of copyright in general, and in TRIPS¹

The law of copyright is addressed to creative expression. Copyright protection includes a number of enumerated rights that initially are vested in the author² of the copyrighted work.

¹ See UNCTAD, *The TRIPS Agreement and Developing Countries*, Geneva, 1996 [hereinafter UNCTAD 1996].

² The notion of “authorship” received quite a bit of attention during the TRIPS negotiations. The Motion Picture Association of America (MPAA) wanted a definition of authorship that would recognize corporations as authors. Historically, civil law countries have emphasized authors as “flesh and blood” creators only. While common law countries also tend to identify the author as the natural person who created the work, copyright tradition in these countries is less wedded to this notion. In terms of identifying the author, Article 15(1) of the Berne Convention (Paris Act) states a rule that the name appearing on the work “in the usual manner” is the author – at least for the purposes of instituting an infringement proceeding. National laws may customize this concept to reflect their own policies and many countries have in fact done so. For example, in France and the United Kingdom, the author is presumed to be the person whose name appears on *published* copies of the work. See France, Intellectual Property Code Art. L 113-1; United Kingdom, Copyright Designs Patent Act 1988 §104(2). In the United States, the presumption of authorship is based on the information stated on the certificate of copyright registration. Section 410(c) of the Copyright Act provides that when a work is registered within five years of publication the certificate “shall” constitute presumptive evidence of the validity of the copyright, stated therein. In general, the Berne Convention gives considerable flexibility to national law to define who an author is and how to identify the author. See WIPO, *Guide to the Berne Convention for the Protection of Literary and Artistic Works (Paris Act, 1971)* 93 (1978). The TRIPS Agreement should be interpreted to have incorporated this deference to national definitions of authorship given the assimilation of Berne Convention Articles 1-21 into the TRIPS Agreement. See TRIPS Agreement Article 9(1).

Copyright law protects a variety of works that are generally characterized as literary or artistic. Traditionally, such works were limited to novels, poems, dramas, musical compositions, paintings and drawings. Technological developments, however, continued to transform the ways in which creativity could be expressed and exploited, thus giving rise to a corresponding need to stretch the boundaries of the traditional concept of “literary and artistic works.” Today, copyright extends to utilitarian works such as computer programs, databases and architectural works. Indeed, there will likely be an ongoing expansion of what constitutes “literature” and “art” as technology continues to transform the way creativity is expressed, disseminated and managed. The advent of digital computing and demands for protection of industrially applicable “expression” has made more difficult the historical distinction between “industrial property” and “artistic expression”.

As the corpus of protected works was expanded to accommodate new technological developments, new rights were added to accommodate the variety of ways that the work could be exploited in the marketplace.³ Hence, copyright remains a dynamic body of law, responding to multiple changes in the incentive structure that has historically characterized investments in creative endeavours. At the same time, new norms and principles are being established to address the challenges posed by the information age.

Seen from a development perspective, TRIPS Agreement patent rules may favour enterprises that are already the holders of most patented technology and are in a better position to undertake new research and development. Copyright-dependent enterprises in the developed countries certainly have important advantages over developing country enterprises because they have greater access to capital and better developed distribution networks. Yet in copyright there is a somewhat more level playing field among developed and developing countries since many expressive works can be created with little capital, are protected automatically under copyright law (unlike the case of patents), and may not require an expensive distribution network to be marketed. While it may cost a great deal to invent and patent a new jet engine or radar system, a large part of the world population can write a story or record a song. The Internet makes distribution of new expressive works inexpensive, even if for the moment it may not be so easy to protect copyrighted material on a digital network. The more equal playing field in copyright is reflected in a lower level of controversy so far between developed and developing countries regarding copyright protection than is evident in some other areas regulated by TRIPS.

Generally speaking, copyright protection provides exclusive rights to make and distribute copies of a particular expression and also of derivative works, such as adaptations and translations. The right extends for a limited time period, with TRIPS and the Berne Convention generally prescribing a minimum term of the life of the creator plus 50 years. The protection is more limited in scope than patent

³ See, for example, the provisions of the two WIPO treaties designed specifically to deal with the unique issues associated with digital communications technologies. These two treaties are the WIPO Copyright Treaty and the WIPO Performers and Phonograms Treaty. Both were adopted by the Diplomatic Conference in Geneva, Switzerland, on December 20, 1996.

1. Introduction: overview, terminology, definition and scope

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protection, particularly in the sense that copyright does not preclude “independent creation” of an identical work. The period of protection, while substantially longer than that for patents, is nevertheless limited so that society can ultimately gain from having artistic works become freely available. The copyright gives the author-creator the right to assign at least his or her economic rights to a more efficient distributor, such as a publisher or music company, in return for royalties. Copyright also protects certain “moral rights” of authors, which in some circumstances may not be assignable or transferable.

Copyright protection is intended to provide incentives for the creation of new works of art, music, literature, cinema and other forms of expression. Protection is generally considered necessary because, without copyright, it is relatively easy to free ride on these creative efforts and the price of expressive goods would be reduced to the costs of copying them.⁴ Copyright is also required because there is great uncertainty about the likely success of new creations and in some cases the cost of development is substantial, such as with a film or symphonic work. Free riders are able to tell with greater certainty than creators which works are worth copying, thereby avoiding the financial risks assumed by creators. There are important limits on the scope of copyright. The principal limitation consists, in common law jurisdictions, of the fair use or fair dealing doctrines, or, in continental law jurisdictions, of specific statutory exceptions. Both kinds of limitations acknowledge the importance to society of education, news and commentary, as well as social criticism. In consequence, they allow some unauthorized copying for limited purposes.⁵ Reverse engineering of more industrially-applicable copyrighted works such as computer software has been permitted under fair use doctrine under conditions that have varied among countries. In summary, copyright involves

⁴ Most intellectual goods share characteristics that require intervention in the form of copyright (or patent) laws. Imagine, for example, that it costs $X+1$ dollars to produce a book. Once published, the book is sold for $X+2$. After publication, however, it costs considerably less to reproduce copies of the book. For example, photocopying the entire book may cost only “ X ” or even less. Consumers are likely to pay the lesser price which may be a short term positive outcome for the public. In the long term, however, it will harm the public because the rate of book writing will decrease due to an author’s inability to prevent unauthorized reproduction of the work. In economic terms this is referred to as the “public goods” problem associated with intangibles such as ideas, which are protected under patent laws, and expressions of ideas protected by copyright. The cost of creating a public good is typically high while the cost of reproduction is low. Further, reproduction does not deplete the original. In other words, a photocopy of the book is just as good, in terms of content, as any other copy of the same book. This characteristic is referred to as “non-rivalrous” and it distinguishes intellectual property from other types of property. Public goods also are “non-excludable.” In other words once the good is produced, there is no way to prevent others from enjoying its benefits. Once a copyrightable song is released, it is impossible to keep non-paying members from hearing and enjoying the music, whether they hear it at a friend’s home or at a party. One rationale for copyright law is that it solves the public goods problem. Implicit in this view, however, is that the production of copyrightable works at optimal levels is a desirable objective for society. Other views of copyright include a human rights philosophy, which posits that the protection of intellectual goods is an intrinsic aspect of recognizing human dignity. Whatever the philosophical basis for copyright, however, it is clear that the existence of a mechanism for protecting creative work has positive gains for economic growth and development. The fact that other, non-economic, goals are also satisfied makes copyright even more valuable than a purely economic justification might otherwise suggest.

⁵ For more details on these exceptions to copyright, including the fair use and fair dealing doctrines, see Chapter 12, in the introduction.

providing exclusive rights in respect to creative expression, subject to some public-interest limitations.

TRIPS (Part II, Section 1) sets forth standards for the protection of authors, broadcasting organizations, performers and phonogram producers. The main obligations imposed by TRIPS in the area of copyright and related rights include: (i) protection of works covered by the Berne Convention,⁶ excluding moral rights, with respect to the expression and not the ideas, procedures, methods of operation or mathematical concepts as such (Article 9); (ii) protection of computer programs as literary works and of compilations of data (Article 10); (iii) recognition of rental rights, at least for phonograms, computer programs, and for cinematographic works (except if rental has not led to widespread copying that impairs the reproduction right) (Article 11); (iv) recognition of rights of performers, producers of phonograms and broadcasting organizations (Article 14).

In addition, the Agreement (Article 51) obliges Members to take measures at the border with regard to suspected pirated copyright goods and requires criminal procedures and penalties to be applied in cases of copyright piracy⁷ on a commercial scale (Article 61). As with other matters covered by the Agreement, developing and least-developed countries enjoy transitional periods to implement their obligations relating to copyright and related rights.⁸

From a development perspective, it is common to all forms of copyright that enhanced protection may in the long term stimulate the establishment of local cultural industries in developing countries, provided that other obstacles to such development are avoided. However, in the short and medium term, stronger copyright protection does give rise to some concern. Since copyrights are exclusive, they create access barriers to the protected subject matter, such as books, computer software and scientific information.⁹ It is thus essential to developing country policy makers to strike the right balance between incentives for creativity on the one hand and ways to enable their societies to close the knowledge gap vis-à-vis developed countries, on the other hand. For this purpose, the copyright provisions of TRIPS provide for some flexibility, which will be analysed in detail in the subsequent chapters.

Another important development issue concerns the direct costs of implementation of the TRIPS copyright provisions.¹⁰ Since there are no formalities for the

⁶ See Berne Convention for the Protection of Literary and Artistic Works, September 9, 1886, completed at Paris on May 4, 1896, revised at Berlin on November 13, 1908, completed at Berne on March 20, 1914, revised at Rome on June 2, 1928, at Brussels on June 26, 1948, at Stockholm on July 14, 1967, and at Paris on July 24, 1971, and amended on September 28, 1979 [hereinafter Berne Convention].

⁷ For the purposes of TRIPS, "pirated copyright goods shall mean any goods made without the consent of the right-holder or person duly authorized by the right-holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation" (footnote to Article 51).

⁸ UNCTAD 1996, paras. 161, 162.

⁹ See IPR Commission p. 99. The report can be consulted at http://www.iprcommission.org/graphic/documents/final_report.htm. Page numbers refer to the pdf and hard copy versions of this report.

¹⁰ For the following, see UNCTAD 1996, paras. 185, 186.

1. Introduction: overview, terminology, definition and scope

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acquisition of copyrights and related rights, the expansion and strengthening of protection shall not necessarily lead to increased administrative costs. However, deposit of works is required in some countries for specific legal purposes, or is convenient for the purposes of proof in eventual litigation. TRIPS may, therefore, have an impact on the volume of work of copyright offices and may require additional resources (mainly personnel and computer facilities).

The main direct costs for implementing the TRIPS copyright provisions may stem from enforcement. Administrative (police and customs) and judicial authorities may be increasingly involved in procedures regarding injunctions and other remedies, suspension of release of products into circulation, and other enforcement-related procedures. This may imply significant costs – yet to be estimated – that, in principle, will be only partially absorbed by the title-holders.

The following and the subsequent copyright chapters deal in detail with the following issues: copyright works (copyrightable subject matter); computer programs; databases; the rental right; term of protection; limitations and exceptions; and rights related to copyright.

1.2 Terminology, definition and scope

Article 9 does not provide a definition of copyright works but instead defers to the provisions of the Berne Convention for Literary and Artistic Works.¹¹ Thus, it is the provisions of the Berne Convention that determine what constitutes copyrightable works under TRIPS.¹² However, TRIPS Article 9.2 makes explicit what is *not* protectable by copyright. There must be protection for expressions, but not for “ideas, procedures, methods of operation or mathematical concepts as such.”¹³ This invokes what is often described as the “idea/expression dichotomy” in many common law countries.¹⁴ As a matter of fact, however, the rule that copyright protection extends only to expressions and not to the underlying ideas is generally recognized in all countries.¹⁵

Under TRIPS, distinguishing between the idea and the expression, for purposes of ascertaining what exactly is copyrightable in a particular work is a function implicitly left to the legislature and/or judiciary of a Member. However, the explicit incorporation of the idea/expression dichotomy in an international agreement is precedential, and sets an important boundary for the scope of proprietary rights in

¹¹ TRIPS Article 9 incorporates by reference the Berne Convention (Paris Text) of 1971. Thus, all WTO Members are bound by the Paris Text.

¹² See Article 2 of the Berne Convention, as quoted under Section 3, below.

¹³ For more details on the protectable subject matter, see Section 3, below.

¹⁴ This doctrine was well articulated by the Supreme Court of the United States in *Baker v. Selden* (101 U.S. 99, 1879): “A treatise on the composition and use of medicines, be they old or new; on the construction and use of ploughs, or watches, or churns; or on the application of colors for painting or dyeing; or on the mode of drawing lines to produce the effect of perspective, would be the subject of copyright; but no one would contend that the copyright of the treatise would give the exclusive right to the art or manufacture described therein. . . . The use of the art is a totally different thing from a publication of the book explaining it. The copyright of a book on book-keeping cannot secure the exclusive right to make, sell, and use account-books prepared upon the plan set forth in such book.”

¹⁵ Claude Masouye, *Guide to the Berne Convention for the Protection of Literary Artistic Works*, 12 (1978).

creative works. Ideas are the basic building blocks of creative works and reserving them from the scope of copyright is an important policy strategy to ensure that copyright protection does not operate to confer monopoly rights on the basic elements of creative endeavours. The delimitation is also important because it serves to channel certain creative works into the realm of copyright and others into the realm of patent law. Finally, the idea/expression dichotomy ensures that future authors are not hindered from engaging in creative activity due to a monopoly by previous authors on the underlying ideas of their work.¹⁶

Thus, the idea/expression dichotomy helps to sustain the public domain – that all important store of resources that sustains future creativity and from which the public at large may freely use and obtain entire works (such as those in which copyright protection has expired) or aspects of works free from copyright claims (such as underlying ideas, procedures, etc.). One leading copyright scholar notes that “a vigorous public domain is a crucial buttress to the copyright system” and that without it, copyright might not be tolerable.¹⁷

To amplify the idea/expression dichotomy, Article 9.2 also excludes methods of operation and mathematical concepts from copyright protection. It should be noted that in addition to the exceptions listed in Article 9.2, the Berne Convention adds “news of the day” and “miscellaneous facts having the character of mere items of press information.”¹⁸ Accordingly, these two additional categories of works are also non-copyrightable under TRIPS.

As expressly stated in Article 9.1, second sentence, TRIPS does not obligate WTO Members to provide protection of moral rights as provided under Article 6*bis* of the Berne Convention. The moral right is of a non-economic character being the author’s right to “claim authorship of the work and to object to any distortion, mutilation or other modification of, or other derogatory action in relation to, the said work, which would be prejudicial to his honour or reputation.”¹⁹

Finally, Article 9.1 expressly obligates Members to comply with the Appendix to the Berne Convention. This Appendix contains special provisions regarding developing countries. Most importantly, it provides developing countries with the

¹⁶ A simple example might be useful here. If an author writes a book describing a beautiful castle in Spain, it will not preclude a subsequent writer from writing a book about the same castle. The idea of writing a book about the castle is not protected by copyright. Only the expression of the idea is protected – that is, what the novel actually says about the castle. Further, what copyright offers is protection against *copying* of the expression, but not against a third party’s *independent creation* of similar expressions. Thus, if the second author writes the same things about the castle, perhaps even using the same words and phrases, the first author does not have a claim of copyright violation unless the second author copied his work. The task of distinguishing idea from expression may be relatively simple with regard to certain categories of works such as the book used in this example. However, with regard to more functional works such as computer programs, distinguishing the “idea” from the “expression” can be quite complex. In most countries, application of the idea/expression dichotomy is the task of the judiciary which makes the determination on a case by case basis.

¹⁷ Jessica Litman, *The Public Domain*, 39 Emory L.J. 965 (1990).

¹⁸ Berne Convention, Article 2(8).

¹⁹ See Article 6*bis* of the Berne Convention.

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possibility to issue, on certain conditions, compulsory licenses for the reproduction of copyrighted materials (Article III of the Appendix) and for the translation of copyrighted materials into a language in general use in the authorizing country.²⁰

2. History of the provision

2.1 Situation pre-TRIPS

Article 9.1 does not establish a new standard of international copyright *per se*, but simply codifies what had been the practice in most countries prior to the negotiation of TRIPS. Instead, Article 9.2 clarifies the provisions of Article 2 of the Berne Convention, which establishes the scope of copyrightable subject matter. Further, through the explicit codification of the idea/expression dichotomy, Article 9.2 advances an important social objective at the international level, namely, encouraging the development of a robust public domain for the benefit of the public at large and ensuring the security of this resource for future generations of authors.

By way of a definition, Article 2(1) of the Berne Convention provides a non-exhaustive list of works that must be protected by copyright. These include

“every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as books, pamphlets and other writings; lectures, addresses, sermons and other works of the same nature; dramatic or dramatico-musical works; choreographic works and entertainments in dumb show; musical compositions with or without words; cinematographic works . . . ; works of drawing, painting, architecture, sculpture, engraving and lithography; photographic works . . . ; works of applied art; illustrations, maps, plans, sketches and three-dimensional works relative to geography, topography, architecture or science.”

In addition to these “first generation” works, the Berne Convention in Article 2(3) requires copyright protection for translations, adaptations, arrangements of music and other alterations of a literary or artistic work. Essentially, this provision requires that works that are derived from first generation works be equally protected by copyright without prejudicing the copyright in the earlier works. For example, an English translation of a Portuguese novel must be protected by copyright, distinct from the copyright in the underlying Portuguese novel. Similarly, a movie that is based on a novel, or a new arrangement of a musical composition, must also be protected by copyright distinct from the first work. These “derivative works,” as they are called in certain jurisdictions, enjoy copyright status as “original” works independent of the copyright on the works on which they were based or from which they were derived.

²⁰ On the Appendix to the Berne Convention, see also Chapter 12.

2.2 Negotiating history

2.2.1 The Anell Draft

On what is now Article 9, the Anell Draft of 23 July 1990²¹ included the following proposals:

1A “PARTIES shall grant to authors and their successors in title the [economic] rights provided in the Berne Convention (1971), subject to the provisions set forth below.”

1B “PARTIES shall provide to the nationals of other parties the rights which their respective laws do now or may hereafter grant, consistently with the rights specially granted by the Berne Convention.”

The bracketed reference in the developed countries’ proposal to “economic” rights indicates some negotiators’ intention to exclude moral rights from the new copyright obligations. Apart from that, however, the scope of Article 9 was intended by delegations to conform substantially to the Berne Convention.

2.2.2 The Brussels Draft

The Brussels Ministerial Text²² on what is now Article 9.1 was quite similar to the current Article 9.1. It provided that

“PARTIES shall comply with the substantive provisions [on economic rights] of the Berne Convention (1971). [However, PARTIES shall not have rights or obligations under this Agreement in respect of the rights conferred under Article 6*bis* of that Convention or of the rights derived therefrom].”

The main difference was that the Brussels Draft referred to the “substantive provisions” of the Berne Convention, instead of providing for an explicit list as now under Article 9.1. This modification through the final version of Article 9 has been welcomed as a means of avoiding confusion about the exact scope of the reference to the Berne Convention.²³

The reason for the exclusion of moral rights from the scope of Article 9 was the concern of some countries from the Anglo-American copyright system that strengthened moral rights could possibly represent obstacles to the full enjoyment by a purchaser of a legally obtained licence.²⁴ Civil law countries would have preferred the inclusion in Article 9.1 of moral rights.²⁵

²¹ Chairman’s report to the Group of Negotiation on Goods, document MTN.GNG/NG11/W/76, of 23 July 1990 [hereinafter Anell Draft].

²² 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 [hereinafter Brussels Draft].

²³ See Daniel Gervais, *The TRIPS Agreement: Drafting History and Analysis* (1998) [hereinafter Gervais], p. 72, para. 2.51, with examples of possible confusion.

²⁴ *Ibid.*, para. 2.52. This position is based on the view that moral rights cannot be waived by the author.

²⁵ *Ibid.*, rejecting the above Anglo-American concern about moral rights by arguing that those rights may be waived under the Berne Convention. According to this author, it is up to domestic legislation to determine whether moral rights may be waived, see paras. 2.52, 2.53.

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As far as Article 9.2 is concerned, it originated in a Japanese proposal reserved to computer programs.²⁶ In July 1990, still in the framework of specific rules on computer programs, the Anell Draft proposal provided that

“Such protection shall not extend to ideas, procedures, methods [, algorithms] or systems.”

This language is in essence similar to the current Article 9.2, which for the first time in an international agreement provides for a list of uncopyrightable subject matter. In the Brussels Draft, this proposal was still contained in the draft provision specifically related to computer programs.²⁷ The draft was subsequently taken out of the computer-specific provision and enlarged in scope to apply to copyrights in general. Thus, the pertinent provision of the Dunkel Draft of December 1991 read as follows: “Copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such.”²⁸

3. Possible interpretations

3.1 Literary and artistic works

Article 2 of the Berne Convention—explicitly assimilated to TRIPS through Article 9 – provides that:

“(1) The expression “literary and artistic works” shall include every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as books, pamphlets and other writings; lectures, addresses, sermons and other works of the same nature; dramatic or dramatico-musical works; choreographic works and entertainments in dumb show; musical compositions with or without words; cinematographic works to which are assimilated works expressed by a process analogous to cinematography; works of drawing, painting, architecture, sculpture, engraving and lithography; photographic works to which are assimilated works expressed by a process analogous to photography; works of applied art; illustrations, maps, plans, sketches and three-dimensional works relative to geography, topography, architecture or science.

(2) It shall, however, be a matter for legislation in the countries of the Union to prescribe that works in general or any specified categories of works shall not be protected unless they have been fixed in some material form.

(3) Translations, adaptations, arrangements of music and other alterations of a literary or artistic work shall be protected as original works without prejudice to the copyright in the original work.

(4) It shall be a matter for legislation in the countries of the Union to determine the protection to be granted to official texts of a legislative, administrative and legal nature, and to official translations of such texts.

(5) Collections of literary or artistic works such as encyclopaedias and anthologies which, by reason of the selection and arrangement of their contents, constitute

²⁶ Ibid., para. 2.56.

²⁷ See the Brussels Draft on what is now Article 10.2 (Chapter 8).

²⁸ See Article 9.2 of the Dunkel Draft, document MTN.TNC/W/FA of 20 December 1991.

intellectual creations shall be protected as such, without prejudice to the copyright in each of the works forming part of such collections.

(6) The works mentioned in this article shall enjoy protection in all countries of the Union. This protection shall operate for the benefit of the author and his successors in title.

(7) Subject to the provisions of Article 7(4) of this Convention, it shall be a matter for legislation in the countries of the Union to determine the extent of the application of their laws to works of applied art and industrial designs and models, as well as the conditions under which such works, designs and models shall be protected. Works protected in the country of origin solely as designs and models shall be entitled in another country of the Union only to such special protection as is granted in that country to designs and models; however, if no such special protection is granted in that country, such works shall be protected as artistic works.

(8) The protection of this Convention shall not apply to news of the day or to miscellaneous facts having the character of mere items of press information.”

An overview of the works enumerated in this Article 2, and by assimilation TRIPS Article 9, suggests at least seven categories of works that must be protected under national copyright systems. These are (i) literary works, which cover all forms of writings, whether by words or numbers or symbols; (ii) dramatico-musical works such as plays, mimes, choreography, operas and musical comedies; (iii) cinematographic works, which include film or videotaped dramatic works and other forms of content fixed in film; (iv) works of music with or without words; (v) visual art works in two and three-dimensional forms, including applied art (for example, this category would include architecture, sculptures, engravings, lithography, maps, plans and photographic works); (vi) derivative works, which include translations, adaptations, and arrangements; (vii) compilations and collective works such as encyclopedias and, more recently, databases. For each of these categories, the particular manner in which copyright protection is extended differs across countries.

In the United States, for example, the right to protect translations, adaptations and alterations of pre-existing works is granted to the author of the underlying work as part of the initial copyright grant²⁹ that precludes others from making derivative works without the permission of the copyright owner. Failure to obtain such permission before adapting or altering the work will lead to claims of infringement. In other jurisdictions, notably in European countries, moral rights, which constitute an inextricable part of the copyright grant, effectively limit what third parties can do to alter or modify copyrighted works. The objective of these two approaches is similar: to limit by copyright the freedom of a party, other than the author of the first generation work, to alter or modify the work.

Neither the U.S. nor the European approach to derivative works is dictated by TRIPS. While the Berne Convention requires protection for moral rights, TRIPS

²⁹ 17 U.S.C. §106(2). U.S. copyright law includes specific provisions addressing some traditional moral rights interests, such as preventing the destruction of well-known artistic works. In other respects, U.S. law addresses traditional moral rights interests through derivative rights and unfair competition rules.

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specifically excludes such a requirement.³⁰ Consequently, under TRIPS, a Member may choose to grant the right to make these works to the author of the first work, or may simply allow others to make the adaptations and translations. TRIPS only requires that when such works are produced, national copyright legislation must extend protection to them. A country is free to determine how and to whom the protection should be directed. Note, however, that with regard to collections the Berne Convention requires that an author be given the right to make compilations of his or her own work.³¹

One possible interpretation of Article 9.2 is that it requires protection of all qualifying “expressions” in the context of Article 9.1 which would, in theory, widen the scope of copyright works.³² In practice, however, it would appear that there are very few works which could not qualify for copyright protection, subject of course to the explicit exceptions recognized by the Berne Convention. Since TRIPS assimilates the Berne Convention standard for what constitutes copyrightable subject matter, there is a need to understand the scope of works eligible for protection under Berne Convention Article 2.

3.2 Official texts, lectures, addresses

The Berne Convention also gives Member States the discretion to determine whether official government texts, such as judicial opinions, legislative enactments and administrative rules, will be protected by copyright.³³ Countries such as the United Kingdom and Canada and other British Commonwealth countries protect such works by copyright (typically referred to as “Crown Copyright” or “Parliamentary Copyright”) but with generous provisions for free use by the public. Other countries, such as the United States, Germany and Japan,³⁴ explicitly exclude federal government works from copyright protection.³⁵ Additional areas of national discretion in regard to copyright protection are political speeches, speeches given in the course of legal proceedings, the conditions under which lectures, addresses or speeches to the public may be reproduced by the press, broadcast, communicated to the public by wire and made the subject of public communication when the use is justified by an informatory purpose.³⁶ The discretion granted by Berne Convention Article 2*bis* in this regard is circumscribed by Berne Convention Article 11*bis* which requires that countries grant authors of literary and artistic works the exclusive right to communicate their work to the public. Consequently, a country can determine the conditions under which this right may be exercised,

³⁰ See TRIPS Agreement, Article 9.1.

³¹ Berne Convention, Article 2*bis*(3).

³² See Gervais, at 78.

³³ See Berne Convention, Article 2(4).

³⁴ 17 U.S.C. §101, §105; German Copyright Act, §5(1), 2004; Japan Copyright Act, Art. 13.

³⁵ See 17 U.S.C. §§101, 105. It is unclear whether state government materials may be the proper subjects of copyright since the statute only explicitly excludes works of the federal government. The weight of scholarly opinion suggests that, for the same policy reasons that underlie the exclusion of federal government works, state government works should also be excluded. However, there has been no determinative ruling on this matter by a court.

³⁶ See Berne Convention, Article 2*bis*.

but this should not prejudice the author's right to obtain equitable remuneration for such broadcasts.

3.3 Creativity and originality requirements

It is important to note that the works listed in Article 2(1) are mere illustrations of the kind of works that qualify as "literary and artistic works." Thus, it is quite possible to extend copyright protection to works that are not enumerated in Article 2(1), so long as the work can reasonably qualify as "productions in the literary, scientific and artistic domain." The Berne Convention does not offer much insight into a precise definition for this phrase. However, the history of the Berne negotiations indicate that delegates agreed that some element of creative activity must be present in the work.³⁷ In other words, the work protected must be considered an intellectual creation. As the German law puts it, the work must be a "personal intellectual creation."³⁸ The substantive quality of the work is typically of no relevance to the question of eligibility for protection; thus, the first poem of a new author is entitled to copyright protection as much as a poem by an accomplished and renowned poet. This is, in effect, an agreement that neutrality (or indifference) to the aesthetic value of a work is a standard principle of copyright regulation. As an international matter, aesthetic neutrality has the benefit of avoiding contestable determinations of culturally subjective evaluations of the merit of literary and artistic works from different parts of the world. At the same time, aesthetic neutrality from a national perspective allows judicial enforcement of copyright to be based on legal standards and not the aesthetic judgment (or preference) of the judge.³⁹ It is not surprising, then, that the vast majority of countries have adopted this approach, requiring that a work be creative or "original" meaning that the work should demonstrate intellectual investment but not requiring any standard of quality for the purposes of copyright protection. In this regard, Berne Convention Article 2(5) mandates protection for collections of works which *by reason of the selection and arrangement* of their contents constitute intellectual creations. Examples of such collective works include encyclopaedias, academic journals and anthologies.⁴⁰

While it has generally been agreed upon by member countries that the work be original (i.e., it should be the product of independent human intellect and creativity), levels of the originality requirement may differ from country to country. In the United States, originality is a fairly low standard requiring "only that the

³⁷ See Sam Ricketson, *The Berne Convention for the Protection of Literary and Artistic Works: 1886–1986*, Queen Mary, Univ. of London, 1987, 229–230 [hereinafter Ricketson].

³⁸ See German Copyright Act, §2(2).

³⁹ Although in common law countries in particular, judicial authorities are inevitably susceptible to making aesthetic judgements even when they claim to be neutral enforcers of the copyright standard. See generally, Alfred Yen, *Copyright Opinions and Aesthetic Theory*, 71 S. Cal. L. Rev. 247 (1998).

⁴⁰ Note that the basis for copyright protection in such works is the intellectual creativity evident in the selection of the works and how the works are arranged to form a collection. Further, each work in the collection enjoys copyright protection separate from the copyright in the whole collective work. Thus, reproducing the entire collection by photocopying a journal is a violation of the copyright in the collective work, while reproducing an article in a journal is a violation of the copyright in that particular article.

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work was independently created by the author and that it possesses at least a minimal degree of creativity.”⁴¹ In Japan the originality standard is relatively higher, requiring that “thoughts and sentiments are expressed in a creative way.”⁴² The originality requirement with respect to works based primarily on factual materials tends to incorporate an element of creativity. In *Feist Publ'ns v. Rural Tel. Serv. Co.*,⁴³ the U.S. Supreme Court held that originality in the case of such works requires some modicum of creativity. This decision was followed by the Canadian Court of Appeal in *Tele-Direct (Publ'ns) Inc. v. American Bus. Infor. Inc.*⁴⁴ The Court in this case stated that “the basis of copyright is the originality of the work in question so long as work, taste, and discretion have entered in to the composition, that originality is established.” It concluded that the defendant had “arranged its information, the vast majority of which is not subject to copyright, according to accepted, commonplace standards of selection in the industry. In doing so, it exercised only a minimal degree of skill, judgment or labour in its overall arrangement which is insufficient to support a claim of originality in the compilation so as to warrant copyright protection.”

In Europe, standards of originality varied between countries. For example, Germany represented a country that required a high level of originality, *inter alia* in compilations of factual works while, in the United Kingdom and Ireland, the originality requirement was more comparable to that of the United States.⁴⁵ However the EC Copyright Directives have constrained the degree of divergence on this standard and the trend now is toward a uniform standard.⁴⁶ These sample definitions of the originality standard illustrate the convergence of the creativity requirement with the originality requirement; in many countries, creativity simply constitutes a part of the originality requirement.

3.4 The fixation requirement

Berne Convention Article 2(2) permits countries to prescribe that works will not be protected by copyright “unless they have been fixed in some material form”. In the United States, for example, a literary and artistic work must be “fixed in

⁴¹ 499 U.S. 340.

⁴² See Japanese Copyright Law, Arts. 1 and 2(1)(i), translated in Dennis S. Karjala & Keiji Sugiyama, *Fundamental Concepts in Japanese and American Copyright Law*, 36 Am. J. Comp. L. 613 (1988), reprinted in *Comparative Law: Law and the Legal Process in Japan*, 717 (Kenneth L. Port ed., 1996).

⁴³ *Feist Publ'ns Inc. v. Rural Tel. Serv. Co.*, 449 U.S. 340 (1991) [hereinafter “Feist”].

⁴⁴ 76 C.P.R. 3d 296 (1997).

⁴⁵ Herman Cohen Jeroham, *The EC Copyright Directives, Economics and Authors' Rights*, 25 Int'l Rev. Indus. Prop. & Copyright Law 821 (1994) (providing comparisons of the originality requirement in different European countries).

⁴⁶ See Gerhard Schricker, *Farewell to the “Level of Creativity” (Schöpfungshöhe) in German Copyright Law?* 26 Int. Rev. of Industrial Property and Copyright Law, 1995 (noting the effect of the EC Directive on the Legal Protection of Computer Programs on the high level of creativity required in German Copyright Law. He states that the German implementation of the Directive incorporates the exclusion of the qualitative and aesthetic criteria in the Recitals of the Directive.) See also, Paul Goldstein, *International Copyright*, 164, 2001. Finally, it should be noted that TRIPS and the WCT require a standard of “intellectual creation” for databases. See TRIPS Article 10.2; WCT, Article 5. There is some possibility that this standard will eventually be generalized for all categories of copyright works.

a tangible medium of expression” to qualify for copyright protection.⁴⁷ In many other countries such as Belgium, Germany, France, Brazil, and Italy, a work is eligible for copyright protection as long as it is in a form that others can perceive it, but regardless of whether it is “fixed” in a tangible medium of expression. The Berne Convention grants Members the discretion to make a choice about whether fixation will be a required element of copyright protection in their respective countries.⁴⁸ Some reasons why fixation may be a useful requirement include: (i) fixation allows the public to have sustained access to the work by requiring that creative works exist in a form that facilitates such access (e.g., how can one own the copy of a song, or a book if they are not fixed?);⁴⁹ (ii) fixation may facilitate making distinctions between works that are copyrightable and works that are not, by requiring authors to do something “extra” to show their interest in the rewards that underlie copyright; (iii) fixation may serve a public policy goal of facilitating the length of time that copyright protection exists in the work – if the work is not in a stable form, it may be more difficult to determine when protection starts and (importantly for public policy concerns) when it ends. As one author has noted, however, the modern trajectory is to abandon the fixation requirement.⁵⁰ Since under TRIPS such a requirement is not mandatory (Article 9.1 only refers to the option under Article 2.2, Berne Convention), it should be considered only if a country has identifiable public policy objectives that would best be served by a requirement of fixation.

4. WTO jurisprudence

There has been no panel decision dealing mainly with the subject of copyrightable works. However, in *US – Section 110(5) of the Copyright Act*, the panel briefly clarified the contents of Articles 11 and 11*bis* of the Berne Convention.⁵¹ These provisions are among those referred to under Article 9 of TRIPS and specify the author’s rights with respect to dramatic and musical works (Article 11 Berne) and in relation to broadcasting and related rights (Article 11*bis* Berne).⁵² The EC had asserted a violation of Articles 9.1 TRIPS, 11 (1)(ii) and 11*bis*(1)(iii) of the

⁴⁷ 17 U.S.C. §102(a). Under U.S. copyright law, a work satisfies the fixation requirement if its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.

⁴⁸ See Berne Convention, Article 2(2).

⁴⁹ This possibility is not quite as unimaginable today given the capabilities of communications technology such as the Internet.

⁵⁰ Ysolde Gendreau, *The Criteria of Fixation in Copyright Law*, 159 R.I.D.A. 100, 126 (1994).

⁵¹ See *US – Section 110(5) of the Copyright Act*, Complaint by the European Communities, WT/DS160/R June 15, 2000, paras. 6.18-6.29. Note that this dispute focused on another issue, namely the analysis of Article 13 of the TRIPS Agreement (i.e. limitations and exceptions to exclusive copyrights). For details see Chapter 12.

⁵² See Article 11 (1) of the Berne Convention: “Authors of dramatic, dramatico-musical and musical works shall enjoy the exclusive right of authorizing:

(i) the public performance of their works, including such public performance by any means or process;

(ii) any communication to the public of the performance of their works.”

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Berne Convention.⁵³ The panel distinguished the two Berne provisions by stating that:

“Regarding the relationship between Articles 11 and 11bis, we note that the rights conferred in Article 11(1)(ii) concern the communication to the public of performances of works in general. Article 11bis(1)(iii) is a specific rule conferring exclusive rights concerning the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of a work.”⁵⁴

In addition, the panel stressed that both provisions are only implicated if the protected works are communicated to the public, because purely private performances do not need any authorization from the right holder.⁵⁵

5. Relationship with other international instruments

5.1 WTO Agreements

There are no other WTO Agreements dealing with the issue of copyrightable subject matter. Consequently, there is no particular relationship between the TRIPS/Berne copyright provisions and other WTO Agreements. Under Article XX GATT, there is, however, a reference to intellectual property rights and more specifically, copyrights: for the purpose of copyright protection, and provided that certain conditions are met, WTO Members may deviate from the basic GATT obligations of most-favoured nation treatment, national treatment and the prohibition of quantitative restrictions.⁵⁶ As opposed to TRIPS and the Berne Convention, the GATT thus treats the protection of intellectual property rights as an exception. Article XX GATT does not however address the issue of copyrightable material.

Article 11*bis* (1) of the Berne Convention provides: “Authors of literary and artistic works shall enjoy the exclusive right of authorizing:

- (i) the broadcasting of their works or the communication thereof to the public by any other means of wireless diffusion of signs, sounds or images;
- (ii) any communication to the public by wire or by rebroadcasting of the broadcast of the work, when this communication is made by an organization other than the original one;
- (iii) the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of the work.”

Both articles thus concern the rights of the *author* and are therefore to be distinguished from Article 14 TRIPS, which deals with the rights of performers, producers of sound recordings and broadcasting organizations.

⁵³ See US – Section 110(5) of the Copyright Act, para. 6.26.

⁵⁴ *Ibid.*, para. 6.25.

⁵⁵ *Ibid.*, paras. 6.24, 6.28. The USA did not contest that its legislation affected the above-mentioned provisions of the Berne Convention, and thus Article 9.1 of the TRIPS Agreement (see para. 6.29). The main issue of the dispute was therefore whether this violation of the Berne Convention was justified under Article 13 of the TRIPS Agreement.

⁵⁶ See Article XX (d) GATT, which reads in its relevant part: “Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: . . . (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to [. . .] the protection of patents, trade marks and copyrights, [. . .].”

5.2 Other international instruments

The incorporation of the Berne Convention into TRIPS means that the negotiating context of the Berne Convention is an important interpretive resource for WTO Members. The initial TRIPS copyright dispute already demonstrates the significant reliance dispute panels will place on Berne history when interpreting TRIPS.⁵⁷ Further, the WIPO Copyright Treaty (WCT) tracks the language of TRIPS Article 9.2 and excludes “ideas, procedures, methods of operation or mathematical concepts as such” from protection.⁵⁸ Accordingly, the interpretation of TRIPS Article 9.2 will undoubtedly inform the interpretation of the WCT.

6. New developments

6.1 National laws

The overwhelming majority of national laws adopt the scope of copyrightable works provided under the Berne Convention and TRIPS. Some countries have included additional categories of works, such as folklore, in their copyright laws.

7. Comments, including economic and social implications

The preceding discussion on the TRIPS requirements for copyright works raises some important economic and social issues. As a point of initial observation, Article 9 contemplates some discretion for countries in prescribing the conditions of protectable subject matter. The extent to which intellectual works are copyrightable determines the balance between incentives for creativity on the one hand and the possibilities for the general public to accede to knowledge-based products on the other hand. TRIPS in some degree provides Members with the freedom to strike this balance according to their particular needs and economic development. Members may choose to require a certain level of creativity and originality; Members may choose whether or not government publications will be protected by copyright and; copyright protection does not extend to ideas, or to mere facts, news of the day or items of press information. Members may also determine the copyright status of political speeches and speeches delivered in the course of legal proceedings. Of course, because TRIPS imposes a *minimum* standard of protection, countries that wish to extend protection to works not required under TRIPS may exercise the discretion to do so. However, in each of the areas where TRIPS does not mandate a specific rule of protection, important social objectives are implicated. For example, the explicit exclusion of ideas from the ambit of copyright protection serves an important public policy objective mentioned earlier, namely, preserving and enriching a public domain of materials and resources which the public can freely draw upon. The copyright status of political speeches implicates socio-political issues such as freedom of the press and freedom of speech. Similarly, the decision to extend copyright to government works has implications for the public

⁵⁷ See *US – Section 110(5) of the Copyright Act*, Complaint by the European Communities, WT/DS160/R June 15, 2000.

⁵⁸ See WCT, Article 2.

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in terms of the accessibility to the laws by which they are governed.⁵⁹ The exercise of national discretion in these areas is of great importance to the economic and social objectives that underlie the copyright system. In this context, the Commission on Intellectual Property Rights has referred to evidence from the past showing that in certain cases, diffusion of knowledge throughout developing countries has been positively affected by weak levels of copyright enforcement. The Commission then expresses the view that many poor people in developing countries have only been able to access certain knowledge-based products through the use of unauthorized copies at much lower prices.⁶⁰

Copyright serves to provide an incentive so that creative activity will be encouraged. Such creative activity is ultimately directed at benefiting the public. The determination of what works are protected and the conditions of such protection should be carefully considered in light of the rich variety of approaches that have been experimented with in the past, and with particular regard to the goals of economic development. A careful balance is necessary in implementing all of the required standards to ensure that the public welfare is not compromised by rules that only consider the incentive aspect. Conversely, implementation should consider what is necessary to encourage optimal production of copyrightable works. For example, a high creativity standard may not be as effective in encouraging the production of a wide range of works, as a low standard has proven to be in countries such as the United States. Alternatively, one might opt for a high standard of creativity in certain categories of works, such as computer programs, and a low standard in others. Since the originality/creativity requirement is a matter of national discretion, it is unlikely that adopting different standards for different works can be said to violate any TRIPS mandate.

In sum, the scope of protectable copyright works has important implications for the social objectives that are inextricably bound to the copyright system. Some of these include freedom of expression, the facilitation of creativity by future generations, the opportunity for the public to access certain kinds of works and the political importance of certain civil freedoms. All of these must be taken into account in adopting a particular model of implementation of the negotiated standards in TRIPS with respect to copyright works. They should also be accounted for in future negotiations about the scope of copyright works.

⁵⁹ Indeed the policy reason for the exclusion of government works in the U.S. copyright law is the significant concern that in a democratic society under the rule of law, laws must be freely available to the public.

⁶⁰ See the report of the IPR Commission, p. 101. The report (*ibid.*) also states that in the past, certain developed countries used to refuse to grant any copyright protection to foreign authors, driven by the concern to satisfy the country's need for knowledge. This may be seen as an encouragement of nationals of the respective country to make use of unauthorized copies of works belonging to foreign authors. Nowadays, such practice would obviously violate Articles 3 (national treatment) and 9.1 of the TRIPS Agreement. It is noteworthy that some developed countries are seeking to deny to developing countries the right to adopt the very public policies they have used in the past.

8: Computer Programs

Article 10.1 Computer Programs and Compilations of Data

Computer programs, whether in source or object code, shall be protected as literary works under the Berne Convention (1971).

1. Introduction: terminology, definition and scope

Article 10.1 requires Member States to recognize computer programs as literary works under the Berne Convention. The Berne Convention itself does not explicitly provide that computer programs constitute copyrightable subject matter; however, works enumerated in Article 2 of the Berne Convention are mere illustrations of the kinds of works to which copyright might extend. Further, these illustrations are not exhaustive. Consequently works such as computer programs that exhibit utilitarian characteristics but also contain expressive elements are legitimate candidates for copyright protection.⁶¹

Since TRIPS does not provide any definition of the term “computer program”, Members may keep the definitions they adopted under their domestic laws prior to the entry into force of TRIPS.⁶² For example, under the 1976 U.S. Copyright Act, a computer program is defined as “a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.”⁶³ The Japanese Copyright Law states that a computer program is “an expression of combined instructions given to a computer so as to make it function and obtain a certain result.”⁶⁴ While the U.K. law does not provide a definition of computer programs, it extends copyright protection both to the program as well as drawings, stories and other traditional works that are generated by the program.⁶⁵

Article 10.1 requires copyright protection for computer programs whether in “source code” or in “object code.” Source code is a level of computer language

⁶¹ Note that computer programs must satisfy all the requirements, such as originality, of other copyright works.

⁶² See also Section 6.1 of this chapter, below.

⁶³ 17 U.S.C. §101.

⁶⁴ Japan, Copyright Act, Article2(1)(Xbis).

⁶⁵ United Kingdom, Copyright, Designs and Patents Act 1988, §178.

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consisting of words, symbols and alphanumeric labels. It is a “high level” language and is intelligible to human beings. Object code is another level of computer language that, unlike source code, is incomprehensible to human beings. Object code is a machine language that employs binary numbers consisting of a string of “0’s” and “1’s.” Many computer programs are written in source code but then distributed in object code form. A computer program known as a “compiler” is used to translate or convert source code into object code.

The object of such copyright protection is, as follows from Article 9.2, not the idea on which the computer software is based, but the expression of that idea through the object code or source code.

2. History of the provision

2.1 Situation pre-TRIPS

Prior to TRIPS, computer programs already enjoyed copyright protection in a significant number of countries. For example, in the United States, computer programs have been protected by copyright, as confirmed in 1976 when the Copyright Act was amended to expressly acknowledge that computer programs are within the subject matter scope of protection. Similarly, in 1991 the European Community Directive on the Legal Protection of Computer Programs⁶⁶ (“EC Software Directive”) required member countries to extend copyright protection to computer programs.⁶⁷ Indeed, by 1991, at least 54 countries recognized copyright protection in computer programs. While most did so through legislative amendment, a few took place through executive proclamations or judicial decisions that extended the existing copyright laws to computer programs.⁶⁸

2.2 Negotiating History

As with other provisions, Article 10 was the subject of several different proposals. With regard to computer programs, earlier drafts of Article 10.1 reflected a struggle over a compromise agreement on what precisely the scope of such a provision might be.

2.2.1 The Anell Draft

“2. Protectable Subject Matter

2.1 PARTIES shall provide protection to computer programs [,as literary works for the purposes of point 1 above,] [and to databases]. Such protection shall not extend to ideas, procedures, methods [, algorithms] or systems.

2.2B.1 For the purpose of protecting computer programs, PARTIES shall determine in their national legislation the nature, scope and term of protection to be granted to such works.

⁶⁶ Council Directive of 14 May 1991 on the Legal Protection of Computer Programs, 1991 O.J. (L-122) 42.

⁶⁷ Article 1(1).

⁶⁸ See Michael S. Keplinger, *International Protection for Computer Programs* 315 PLI/Pat 457 (1991).

2.2B.2 In view of the complex legal and technical issues raised by the protection of computer programs, PARTIES undertake to cooperate with each other to identify a suitable method of protection and to evolve international rules governing such protection.”

In the above draft, there was no independent provision on databases, unlike under the current Article 10 (see Chapter 9). The first paragraph had its origin in a Japanese proposal suggesting the following language:

“The copyright protection for computer program works under the present Agreement shall not extend to any programming language, rule or algorithm use for making such works.”⁶⁹

This proposal was modified later to conform more closely to Section 102 of the 1976 U.S. Copyright Act which provides that

“copyright protection for an original work of authorship [does not] extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery regardless of the form in which it is described, explained, illustrated, or embodied in such work.”

The former Japanese proposal was taken over into the Brussels Draft (as quoted below), but ultimately removed from the context of computer programs and interposed, instead, as a general rule distinguishing copyrightable and non-copyrightable subject matter. This is the rule now embodied in Article 9.2 discussed in Chapter 7.

2.2.2 The Brussels Draft

This draft in its first paragraph contained essentially the same language as the current Article 10.1, but the term “literary” was still bracketed. The final agreement to protect computer programs as “literary” works has important implications for the scope of protection. Without such express reference, Members would be free to qualify computer software as works of applied art or an equivalent thereof, instead.⁷⁰ As such, the protection of computer programs could be less wide than the protection of “literary” works in the narrow sense of the term. The reason for this is that Article 2(7) of the Berne Convention makes the protection of works of applied art dependent on domestic legislation, which may determine the extent to which and the conditions under which such works are to be protected. In addition to that, Article 7(4) of the Berne Convention exempts, *inter alia*, works of applied art from the general term of protection (i.e. the author’s life plus 50 years) and sets up a minimum term of only 25 years from the making of the work.

In addition to that, the first paragraph of the draft contained a bracketed second sentence providing that:

“[Such protection shall not extend to ideas, procedures, methods of operation or mathematical concepts.]”

⁶⁹ See Teruo Doi, *The TRIPS Agreement and the Copyright Law of Japan: A Comparative Analysis*, Journal of the Japanese Group of AIPPI (1996).

⁷⁰ See Gervais, p. 81, para. 2.60.

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This was an amended version of the former Japanese proposal as referred to above, which was subsequently (i.e. after the Brussels Draft) taken out of the computer-related draft provision and put into a more general form under Article 9.2.

The third difference with respect to the current Article 10.1 was that paragraph 1 of the Brussels Draft proposal contained a second sub-paragraph on the compliance with certain procedures as a requirement for the protection of computer programs. This bracketed provision read as follows:

“[This shall not prevent PARTIES from requiring, as a condition of protection of computer programs, compliance with procedures and formalities consistent with the principles of Part IV of this Agreement or from making adjustments to the rights of reproduction and adaptation and to moral rights necessary to permit normal exploitation of a computer program, provided that this does not unreasonably prejudice the legitimate interests of the right holder.]”

This proposal was not taken over into the final version of Article 10.1. Its first semi-sentence is very similar to the current Article 62, which is however not limited to copyrights in computer programs but applicable to all categories of IPRs covered by TRIPS.⁷¹ The second part of the proposed paragraph, referring to adjustments to certain rights for the normal exploitation of a computer program, was entirely dropped.

3. Possible interpretations

The public policy interest in encouraging the creation of computer programs does not necessarily require protection solely in the form of copyright. Article 10 requires that copyright protection be extended to computer programs. However, TRIPS does not preclude additional forms of protection for computer programs. Thus, under TRIPS, a Member could offer patent, copyright and trade secret protection for computer programs.⁷² In such a case, the author can choose which form of protection is most desirable assuming of course that, in the case of software patents, the higher standards of creativity required by patent law are also satisfied.

It should be noted that the possibility of alternative forms of protection for computer programs were contemplated prior to TRIPS, and such alternatives do exist in some national laws.⁷³ What TRIPS does require, though, is that one of the options for legal protection is in the form of copyright law.

⁷¹ For more details on Article 62 of the TRIPS Agreement, see Chapter 30.

⁷² One could argue that TRIPS Article 27.1, which prohibits field specific exclusions of patentable subject matter, requires that Member States recognize patent protection for software related invention so long as the invention satisfies the other requirements for patentability. See J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 *International Lawyer* 345, 360 (1995). More clearly, TRIPS Article 39, which requires protection for undisclosed information, offers a trade secret regime as an alternative to copyright protection for software. Note that because of the mandatory language of Article 10.1, Member States must provide copyright protection for computer programs. However, an innovator may opt for protection under the trade secret laws instead. This outcome is acceptable under TRIPS.

⁷³ See the U.S. Supreme Court decision *Diamond v. Diehr*, 450 U.S. 175 (1981) which paved the way for legal recognition of the patentability of software. Most recently, the controversial decision

TRIPS does not define, however, the eligibility criteria that Members must apply to computer programs, nor, apart from a generalized exclusion of ideas, procedures, methods of operation or mathematical concepts as such (Article 9.2), does the Agreement concern itself with the scope of copyright protection for this subject matter. Meanwhile, the software industry keeps evolving at a rapid pace, as does litigation in some countries concerning copyright protection of computer programs.⁷⁴

TRIPS allows for reverse engineering of computer programs by honest avenues. This means that, although wholesale copying of computer programs is prohibited, the practice of re-implementing functional components of a protected program in “clones” is not. Programs that are independently coded and that yet deliver essentially the same functional performance or behaviour as the originator’s own software do not infringe the latter’s rights.⁷⁵ This may boost competition and innovation by firms in all countries, including in developing countries where some capabilities for the production of software already exist.

This distinction in Article 9.2 between protectable expressions on the one hand, and non-protectable ideas on the other, has been implemented differently at the national level, as may be illustrated by the U.S. approach to computer programs and the EC Software Directive. Under the Directive, the licensor cannot restrict a person’s right to observe, study or test the way a program functions in order to obtain an understanding of the ideas embodied in the program, so long as the person doing so is engaging in permitted activity. In certain circumstances, the Directive also recognizes the right of a person who is a rightful owner of the work to decompile (i.e., translate object code into source code) the program to obtain information for purposes of ensuring interoperability with another computer program.⁷⁶ This right is circumscribed by the caveat that the information is not available elsewhere.⁷⁷ These rights do not have counterparts in the U.S. copyright law, although judicial decisions have often resulted in the same outcome. Inevitably, the scope of copyright protection for computer programs will, for the time being, continue to remain flexible and dependent on the interpretation and application given by national courts.

With respect to limitations or exceptions on the scope of protection for computer programs, there is some considerable divergence in the practices of major producers of software such as the United States and the European Union. The

in *State Street Bank & Trust Co. v. Signature Fin. Group*, 149 F. 3d 1368 (Fed. Cir. 1998) confirmed the patentability of business method software patents.

⁷⁴ On this and the following two paragraphs, see UNCTAD, *The TRIPS Agreement and Developing Countries*, New York and Geneva, 1996, paras. 181–183.

⁷⁵ Recall that the object of copyright protection in a computer program is not the underlying idea, but the computer language (i.e. source code or object code, see above, Section 1.) used to express that idea. The critical issue is that the coding of the program was carried out *independently*. In that case, the idea underlying the program is expressed in a way that differs from the way in which the originator of the program has expressed this idea. The new code thus constitutes the expression (of the underlying idea) that may only be attributed to the person having reverse engineered the original program. It is thus the independence of the expression (i.e. the code) that matters, not the similarity of the result.

⁷⁶ See EC Software Directive, Article 6.

⁷⁷ *Id.* Article 6(1).

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differences are most evident with regard to the issue of reverse engineering. Reverse engineering may take place for a variety of purposes including research and the facilitation of compatibility (interoperability) to produce competing software, or software related products. Regardless of its purpose, the process of reverse engineering implicates the reproduction rights of the owner of the original computer program. In the United States, the appropriateness of a particular act of reverse engineering is a matter of judicial determination. U.S. domestic courts examine this practice on a case-by-case basis. In the European Union, however, reverse engineering is regulated by the Software Directive. This has led to distinct policies.

In the United States, for example, courts have held that reverse engineering of software is permissible under certain conditions.⁷⁸ These conditions are evaluated under the rubric of general limitations to copyright such as the fair use doctrine. Consequently, the underlying purpose of the use is of considerable importance in these cases. Reverse engineering for purposes of research is likely to yield favourable decisions to the defendant. Indeed, many commentators view this as an important policy tool in copyright law and that such purposes animate the objectives of having a copyright system in the first place.⁷⁹ Reverse engineering in efforts to create compatible software has also been deemed permissible by courts in the United States.⁸⁰

By contrast, Article 6 of the EC Software Directive conditions decompilation (reverse engineering) for compatibility purposes on the fact that the information necessary to accomplish compatibility must not have been previously readily available. Further, decompilation is to be confined to the aspects of the program related to the need for compatibility. Reverse engineering for purposes of creating competing products is prohibited. There is no specific exception for research, and the limited scope of decompilation permitted by the terms of the Directive is not to be construed in a manner that would unreasonably interfere with the owner's normal exploitation of the computer program.

It could be concluded that once the issue of copyrightable elements of a program has been decided, some deference to domestic policies that permit activities such as reverse engineering or "back-up" or "archival" copies will be acceptable under TRIPS so long as these exceptions are reasonably consistent with the mandate for protection. The scope of these limitations arguably could be challenged under TRIPS Article 13 (see Chapter 12), which requires that WTO Members limit the nature and scope of exceptions to copyright. However, Article 13 does not relate to the question of what is copyrightable but, instead, to the exceptions and limitations to the copyright in the protected work. In terms of what aspects of a computer program are copyrightable, domestic courts still have the task of distinguishing idea from expression; TRIPS does not provide any explicit rules on

⁷⁸ See e.g., *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992).

⁷⁹ See Lawrence D. Graham & Richard O. Zerbe, Jr., *Economically Efficient Treatment of Computer Software: Reverse Engineering, Protection and Disclosure*, 22 Rutgers Computer & Tech. L. J. 61, 67 (1996).

⁸⁰ See *Sega Enterprises, 77 F. 2d 1510; Atari Games Corp. v. Nintendo of America Inc.*, 30 U.S.P.Q. 2d 1401 (N.D. Cal. 1993).

what constitutes “expression” in computer programs. Consequently, there is some flexibility available to countries to determine the extent of copyright protection in a particular computer program.

Finally, software producers may also benefit from provisions in TRIPS requiring WTO Members to protect undisclosed information and to repress unfair competition. For example, once domestic laws to protect undisclosed information are enacted in conformity with Article 39, a local competitor whose conduct violates its provisions may become unable to profit from the improper acquisition of know-how that copyright laws may otherwise have left unprotected.⁸¹ Similarly, the unfair competition norms incorporated into TRIPS through Article 10*bis* of the Paris Convention prevent competitors from copying trademarks or trade dress even though they may otherwise imitate non-copyrightable components of foreign computer programs.

4. WTO jurisprudence

To date, there is no WTO panel decision on this subject.

5. Relationship with other international instruments

The Berne Convention does not explicitly mention computer programs in its illustrative list of copyright works. Consequently, the first international treaty to do so is TRIPS. In 1996, two additional copyright treaties were negotiated under the auspices of the World Intellectual Property Organization (WIPO). These treaties, namely the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT), were directed specifically to the effects of the digital revolution on copyright.

The WCT is a special agreement as defined in Berne Convention Article 20 (“The Governments of the countries of the Union reserve the right to enter into special agreements among themselves, in so far as such agreements grant to authors more extensive rights than those granted by the Convention, or contain other provisions not contrary to this Convention . . .”). By its own terms, the WCT has no connection with any other treaties but the Berne Convention.⁸² Nonetheless, the WCT is not to be interpreted as prejudicing any rights and obligations under other treaties.⁸³ This suggests that for nations that have ratified both the WCT and TRIPS, the two agreements should be implemented and interpreted consistently.

With regard to computer programs, the WCT is the second international treaty to explicitly address copyright protection. WCT Article 4 states: “Computer programs are protected as literary works within the meaning of Article 2 of the Berne Convention. Such protection applies to computer programs, whatever may be the mode or form of their expression.” The reference to the Berne Convention suggests that, as a matter of international law, the requirements for copyright works under Berne Convention Article 2 will apply, *mutatis mutandis*, to computer programs

⁸¹ Know-how is not an expression, but an idea, and thus not eligible for copyright protection.

⁸² See WCT, Article 1(1).

⁸³ *Id.*

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protected under the provisions of the WCT. Thus, even though the WCT does not explicitly mention the idea/expression dichotomy, it is reasonable to assume that the idea/expression principle extends to the scope of copyright protection recognized for computer programs by WCT Article 2. The combined legal force of TRIPS Article 10 and WCT Article 4 confirms that computer programs are firmly established as copyrightable subject matter under international copyright law. As the previous discussion indicates, however, this confirmation does not mean that all countries protect computer programs in the same way and to the same extent.

6. New developments

6.1 National laws

A large cross-section of countries had already extended copyright protection to computer programs prior to the negotiation of TRIPS. Consequently, many countries were already in compliance with Article 10 with respect to the availability of copyright protection for computer programs. However, differences in protection remain, as is particularly evident in the scope of exceptions or limitations to protection. For example, judicial decisions in the United States suggest that software structure, sequence and organization are protectable under copyright law.⁸⁴ Other countries have not clearly determined that this is the case under their legislation. In addition, TRIPS requires that computer programs be protected as literary works for a term of the life of the author plus 50 years.⁸⁵ Those countries which, prior to TRIPS, accorded a lesser term of protection for computer programs must modify their laws to be compliant with the term requirements of TRIPS.

An issue not addressed under TRIPS is the use by copyright holders of encryption technologies.⁸⁶ In this context, it is noteworthy that the U.S. 1998 Digital Millennium Copyright Act (DMCA), implementing the WCT, makes illegal those acts circumventing encryption technologies, even in cases traditionally considered legal under the fair use exception.⁸⁷ This kind of approach to encryption is by no means mandatory either under TRIPS or under the WCT. Developing countries are free to deny protection to encryption technologies when these are used to prevent certain public policy goals, such as distance learning.

In addition to the move to support encryption practices through copyright, some industries in certain countries are pressing their governments to pass legislation even *requiring* computer manufacturers to integrate into their products particular devices technically preventing the copying of protected works without the author's consent.⁸⁸ However, no such legislation has so far been enacted.

⁸⁴ *Whelan v. Jaslow*, 797 F. 2d 1222 (3d Cir. 1986). See also Dennis S. Karjala, *The Relative Roles of Patent and Copyright in the Protection of Computer Programs*, 17 *John Marshall J. of Computer & Information L.*, 41, 53 (1998) hereinafter Karjala.

⁸⁵ As required by the Berne Convention, Article 7(1).

⁸⁶ "Encryption" is "a procedure that renders the contents of a computer message or file unintelligible to anyone not authorized to read it. The message is encoded mathematically with a string of characters called a *data encryption key*. [...]" (See J. Friedman (ed.), *Dictionary of Business Terms*, third edition 2000, p. 220).

⁸⁷ See IPR Commission report, p. 107, referring to the above U.S. law.

⁸⁸ See the IPR Commission report, p. 107.

6.2 International instruments

As opposed to TRIPS, the WCT does address the issue of encryption: Article 11 WCT (Obligations concerning Technological Measures) provides that:

“Contracting Parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law.”

The language employed in this provision offers quite a bit of flexibility as to implementation. What is “adequate” legal protection is to be determined by national legislation, according to national preferences. It is important to note that this provision does not obligate countries to protect encryption technologies in any given case. The last part of Article 11 makes clear that the case of unauthorized use (i.e. without agreement from the author) is not the only one in which encryption may be supported by national copyright law. Instead, countries may limit such support to cases where the use of the protected material is not permitted by law, irrespective of the will of the author. It is thus up to the domestic legislator and national preferences to judge in which degree encryption technologies are justified, and to which extent cases of fair use should prevail.⁸⁹ Countries may opt for quasi-absolute copyright protection by condoning encryption technologies whenever the author does not wish to provide free access to certain works. Alternatively, they may deny the support of encryption technologies through copyright law if circumvention serves certain public policy objectives such as education and technology transfer.

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The market for computer programs is characterized by what many economic commentators refer to as network effects. Simply put, this means that the software market is one where the value of the product increases as the number of people who purchase it also increases. For example, communication technologies such as the telephone or fax machine are generally very susceptible to network effects. Consider that if only one person purchased a telephone or a fax machine, the value of either product would increase as other people purchased the same products. Conversely, the values could decline to nothing if only one person owned a telephone or a fax machine.

Similarly, the market for software that runs on a computer operating system is subject to network effects. This problem has important implications for the diffusion of computer programs. Operating systems have an “interface” that encompasses the way in which computer modules communicate. Computer programs for an application must be written in a way that allows it to run on a particular operating system. The more applications that run on a particular operating system, the more valuable that system becomes. As more applications are written by software developers, more consumers are likely to purchase it because of the variety

⁸⁹ On fair use see Chapter 12, Article 13, TRIPS Agreement.

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of applications available for that particular operating system. As more consumers purchase it, more applications will be developed, and so on. This positive feedback effect gives some understanding of why dominant software firms emerge. To encourage competition in the software industry, there must be careful attention paid to the precise features of software that are protected by copyright.

For example, some commentators argue that certain “internal” interfaces should not be protected by copyright because they are essentially nothing more than “industrial compilations of applied know-how.”⁹⁰ The central focus of arguments against the copyrightability of computer interfaces is that interfaces *must* be used for computer programmers to write programs that can run on the operating system. If these kinds of interfaces are excluded from copyright, then competitors will be free to use the interface to develop a competitive product, which is an important aspect of promoting the public interest. User interfaces that produce computer screen displays are more likely to be subject to copyright under a number of different categories. Such displays might constitute pictorial works (e.g., video game characters) or literary works (e.g., help screens).⁹¹

The importance of computer programs to modern life makes the economic and social implications of protection an important issue for all countries. As discussed above, the important issue is to “abstract” the idea of the program from its expression to ensure that copyright protection is not being used to acquire more rights than the system otherwise permits. Additionally, some countries recognize three general limitations or exceptions to the copyright in computer programs. These are (i) exceptions for “back-up copies”⁹²; (ii) exceptions to foster access to the non-copyrightable elements of the computer program such as “reverse engineering”;⁹³ (iii) exceptions to facilitate interoperability. Properly delineated exceptions in the last two categories have important ramifications for competition and diffusion.

A country with a young software industry may wish to consider strong protection for copyrightable elements to encourage investment in the development of software. As the industry matures, however, it is important to foster competition by allowing certain uses that would facilitate further research and development and ensure that the market is not unduly dominated by the first mover. Such market dominance may have particularly serious repercussions in developing countries,

⁹⁰ See Pamela Samuelson et al., *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 Columbia Law Review, 2308 (1994).

⁹¹ See Karjala, at 55.

⁹² For example, under the EC Software Directive, a person has the right to make a back-up copy of the computer program. Also, the Czechoslovakian copyright law of 1990 permitted users to make back-up copies of a computer program without permission from the owner and without a duty to pay remuneration. Finally, Article 7 of the Brazilian Law of 1987 excluded from infringement, “the integration of the program within an application solely for the use of the person making the integration”.

⁹³ As to the legality of reverse engineering under TRIPS and as to its domestic implementation, see above, under Section 3. Note, however, that *independent* efforts to develop computer programs that meet local industrial and administrative needs may sometimes pay bigger dividends than re-implementing foreign products, which is generally a costly endeavour requiring high technical skills. The potential benefits of obtaining the most up-to-date software by means of direct investment, licensing or other arrangements should always be weighed against re-implementation (in the sense of reverse engineering) of existing software. See UNCTAD, 1996, para. 184.

where high prices charged by a monopolist would exclude most parts of the population from the purchase of the copyrighted software. In this respect, the Commission on Intellectual Property Rights favours an active promotion through developing country governments and their donor partners of low-cost software products.⁹⁴

On the positive side, computer software offers important opportunities for countries already having acquired a certain level of technological capacity to close the knowledge gap *vis-à-vis* industrialized countries. Computer-related technologies are the principal means of accessing information and furthering technology transfer.⁹⁵ The possibility of charging higher prices for copyrighted computer software may also have the positive effect of encouraging the development of local industries producing software that is better adapted to local conditions. This may eventually increase developing countries' participation in the world market of computer software, which is currently very modest.⁹⁶ Thus, the cost-benefit ratio of reinforced protection would have to be judged both in terms of impact on the diffusion of computer technology, including in particular for educational purposes – and on the improved opportunities given to local producers, who would not be able to start up and grow if they were victims of the inexpensive and easy-to-make copying of their products.⁹⁷

The problem of access barriers through strengthened copyright protection arises in particular with respect to the Internet. The world wide web is a major medium for distance learning, considering that providing Internet access is less costly than the setting up of entire libraries.⁹⁸ On the other hand, works published on the Internet (e.g. scientific articles) are increasingly protected from free access through new technologies such as encryption. This practice denies Internet users the access to certain websites, even if such access would be limited to private (e.g. learning) purposes.⁹⁹

Therefore, developing countries should be very careful about condoning encryption technologies which would prevent free access to on-line documents essential to the dissemination of knowledge, including distance learning. This would inhibit developing countries' efforts to close the technology gap towards developed

⁹⁴ See IPR Commission report, p. 105. For this purpose, the Commission recommends that developing countries and their donor partners review their software procurement policies "with a view to ensuring that options for using low-cost and/or open source software products are properly considered and their costs and benefits are carefully evaluated." (ibid.). "Open source" software refers to the source code of a computer program, which is, other than the object code, comprehensible to human beings (see above, Section 3.). According to the IPR Commission, another way of promoting competition with a view to ensuring affordable software prices is to limit the protection of computer programs to the object code, making the source code available to developing country software industries.

⁹⁵ See IPR Commission report, p. 104.

⁹⁶ See UNCTAD, 1996 (paras. 170-172), responding to the concern that due to actual market shares, strengthened software protection is likely to improve developed countries' market positions *vis-à-vis* developing countries.

⁹⁷ Ibid., para. 172.

⁹⁸ See IPR Commission report p. 107.

⁹⁹ See IPR Commission report, p. 106.

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countries. Accordingly, the Commission on Intellectual Property Rights has recommended that:

“Users of information available on the Internet in the developing nations should be entitled to ‘fair use’ rights such as making and distributing printed copies from electronic sources in reasonable numbers for educational and research purposes, and using reasonable excerpts in commentary and criticism. Where suppliers of digital information or software attempt to restrict ‘fair use’ rights by contract provisions associated with the distribution of digital material, the relevant contract provision may be treated as void. Where the same restriction is attempted through technological means, measures to defeat the technological means of protection in such circumstances should not be regarded as illegal. Developing countries should think very carefully before joining the WIPO Copyright Treaty and other countries should not follow the lead of the US and the EU by implementing legislation on the lines of the DMCA or the Database Directive.”¹⁰⁰

In addition to specific legislative exceptions, such as those in the EC Software Directive, it is possible that other general copyright limitations could also be extended to computer programs. Thus, a country could choose to identify explicit limitations in its copyright law, while also allowing courts to extend the generalized limitations on other copyright works to computer programs as well.

In sum, copyright protection of computer programs, like copyright protection in general, gives rise to the same concern about striking the right balance between the encouragement of intellectual activity on the one hand and the free availability of certain documents for public policy purposes on the other.

¹⁰⁰ See IPR Commission report, p. 109.