Some Consequences of Misinterpreting the Trips Agreement

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SOME CONSEQUENCES OF MISINTERPRETING THE TRIPS AGREEMENT.

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Some Consequences of Misinterpreting the TRIPS Agreement

Susy Frankel*

Dispute resolution; Treaty interpretation; TRIPS; World Trade Organisation

Why do we protect intellectual property?

It is well known, even if frequently debated, that the purposes of intellectual property laws include encouraging innovation, in the case of patents, and promoting creativity, in the case of copyright. Variants on these justifications may be found in the policies of different countries. The United States, for example, ties its copyright and patent laws to a constitutional imperative to promote progress of science and the useful arts. Other countries are more direct about the economic importance of protecting intellectual property.¹ A further nuance, of any attempt to summarise justifications for copyright law, are the differences of philosophy between the “authors’ rights” approach, exemplified in the EU and the Anglo-American copyright approach.² Whether these differences are of any practical consequence is often debated, but certainly the differences between EU and US copyright and patent laws are quite stark. Their differing approaches to copyright exceptions were exemplified in the dispute over the US Copyright Act small business exemption (for playing certain types of broadcast music),³ which the WTO found to be contrary to the TRIPS Agreement.⁴ In patent law the big powers have not yet had a WTO dispute despite the many differences in their

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¹ It is often said that the development of copyright in England arose out of the Stationers’ Company’s desire to control the printing of books.
² See Jane Ginsburg, “A Tale of Two Copyrights” (1990) 64 Tulane L. Rev 991 where the author discusses the differences between the systems, but also shows the similarities.
patent laws. Perhaps this is because those differences are permitted under the TRIPS Agreement, which provides for minimum standards of protection and national autonomy over how those minimums are implemented.

The purposes of trade marks are not such lofty claims as innovation and creativity; rather they are to ensure the origin of and sometimes the quality of goods or services to which the trade mark relates. Within the field of trade mark law the boundaries of protection are contested. Broadly, the contest is over whether the value of trade marks is in the marks themselves as a commodity and not just their value as a badge of origin.5

All three of these “traditional fields” of intellectual property: copyright, patents and trade marks have related rights which cause their own debates. Examples include plant variety rights, which are “related” to patents, and geographical indications, which are “related” to trade marks. Even though the rights are “related”, they do have different rationales and justifications from their parents.

Whatever the justification for the protection of intellectual property the policies behind the various forms of protection are frequently questioned. Some patents, it is said, inhibit innovation because they privatise too much. Copyright has arguably been stretched too far so that it protects much more than just the author’s right to make a return for his or her creativity.6 Much ink has been spilt on these complex and controversial topics, and they cannot be done justice here. It suffices to say that there is a significant quantity of debate about the parameters of intellectual property and whether it has become over-protective. Also, questions are raised about whether justifications, such as innovation and creativity remain relevant in the modern world of trade and commerce, or whether they have been subsumed by economic imperatives. The varying purposes of the branches and sub-branches of intellectual property law complicate any attempt to pinpoint any over-arching rationales for intellectual property and perhaps suggest that there is none, other than the ways that they are linked together under the auspices of WIPO and in the TRIPS Agreement.7

As commerce grew and intellectual property travelled across borders proponents of intellectual property in one country wanted to ensure that they could have protection in another country. This motivation for international protection led to the development of treaties. Two core treaties, which remain important today, are the Berne Convention8 and the Paris Convention.9 These are administered by WIPO and are part of the WTO TRIPS Agreement.

6 The development of digital technology has seen copyright extended to protecting the means that is used to prevent copying. These include digital rights management and technological protection mechanisms. Critics argue that this extension of copyright is not justified in the same way that protection of author’s expression is justified.
7 The traditional linkage made by scholars and universities is that intellectual property rights are rights in intangible property. The reality is that while that is undoubtedly legally accurate many of those rights are manifested in objects and traded in commerce.
The rationales for international intellectual property protection

Today the rationales for international intellectual property are not the same as the domestic justifications for intellectual property rights. Basic rationales such as prohibiting infringement are the same. Unsurprisingly, domestic industry interests tend to dominate negotiating platforms of states on the international stage. However, the complexity of international trade in intellectual property adds a different series of rationales, for intellectual property law, to those that are found within the domestic environment. For the late 19th and for most of the 20th century the need to protect domestic industries abroad was largely fulfilled by entering into treaties that ensured similar levels of protection in foreign markets through the provision of minimum standards and national treatment.\(^{10}\) This treaty structure, utilising minimum standards and national treatment, emerged as the norm for international intellectual property protection as the means of achieving the goal of protection abroad. In the later part of the 20th century some powers, most notably the US and EU, felt the need to strengthen these obligations by linking trade and intellectual property. This led to a series of negotiations culminating in the TRIPS Agreement.

Whatever view is taken of the original purposes of international intellectual property law, the TRIPS Agreement has added a layer to those purposes. In the Uruguay Round negotiations that led to the formation of the TRIPS Agreement, the purpose of international intellectual property law was dominated by the nexus with trade. The need for the TRIPS Agreement was hotly debated. While that debate remains important to the Agreement’s critics, the current debate focuses more on what has happened since the TRIPS Agreement came into force in 1995. In particular the various ways in which intellectual property protection is increasing through more multilateral negotiations and free trade agreements (FTAs). Subsequent to the TRIPS Agreement, the US and the EU have created policies to use FTAs as a method to ensure that their business interests are protected in foreign markets, often to a greater extent, than those interests are protected at home.\(^{11}\)

The TRIPS Agreement embodies minimum standards across the range of areas of intellectual property rights. The minimum standards are predicated by a series of general provisions, which include statements in the preamble about the relationship between intellectual property and trade as well as objectives and principles of the Agreement.

Who decides what the TRIPS Agreement means?

The Dispute Settlement Body (DSB) of the WTO has become the authority for interpretation of the TRIPS Agreement.\(^{12}\) It is the only multilateral international body that

\(^{10}\) National treatment is the principle that foreign nationals are treated the same as domestic nationals in domestic law.

\(^{11}\) The standard of protection that the US has in many of its FTAs is higher than that even found in the US. For example, fair use of copyright works in the US is a broader doctrine than is found in the Australian/US FTA or other US FTAs.

\(^{12}\) Members of the WTO sit as the Dispute Settlement Body, which adopts by consensus the reports of panels or the Appellate Body who hear and report on disputes brought by Members under the
decides intellectual property disputes. Indeed, the proponents of the TRIPS Agreement heralded dispute settlement as one of its main achievements.

The TRIPS Agreement is also interpreted by the members of the Agreement in various ways. This interpretation may occur when a Member State enacts national laws to comply with the Agreement. Some domestic courts will consider the meaning of the TRIPS Agreement as a tool for interpreting domestic law so as to ensure that domestic law is consistent with international obligations. Interpretations of the Agreement also occur when Member States negotiate FTAs.

It is beyond the scope of this article to discuss fully the controversies that arise from FTAs. For present purposes it is noted that in many of these agreements powerful members of the WTO, the US and the EU, have obtained increased intellectual property standards that could not be agreed to at a multilateral level. Some of those, commonly called TRIPS-plus, standards arise out of interpretations of a particular view of the TRIPS Agreement. An example might be the meaning of art.27, which defines patentable subject matter. There are some types of patents, for example, that are protected in some countries but not in others, such as second and subsequent uses of known pharmaceutical compounds. The US in a number of its FTAs requires protection of these second uses; apparently on the basis that art.27 of TRIPS requires their protection in any event.\textsuperscript{13} It is beyond the scope of this article to analyse that interpretation of art.27. However, that view is much disputed and has not been the subject of a WTO decision.

The remainder of this article focuses on the WTO Dispute Settlement Body’s interpretation of the TRIPS Agreement and the consequences of what I characterise as its misinterpretation. First, I provide an explanation of aspects of this “misinterpretation”. The article then discusses some international and domestic law consequences of that misinterpretation. Finally some concluding thoughts are offered.

**Interpretation of TRIPS at the WTO**

*Method of interpreting the TRIPS Agreement*

In my previous work, I have analysed the WTO’s application of the customary rules of interpretation of public international law to the TRIPS Agreement.\textsuperscript{14} The customary rules of interpretation that are applied in all WTO disputes are arts 31 and 32 of the Vienna Convention on the Law of Treaties.\textsuperscript{15} The principal rule of Vienna Convention WTO covered agreements. Panels and a standing Appellate Body were established by and operate under the rules of the Understanding on Rules and Procedures Governing the Settlement of Disputes, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401 (DSU).

\textsuperscript{13} Although the US-Peru FTA does not include the protection of second uses of known pharmaceutical compounds.


interpretation is that a treaty must be interpreted “in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context in light of its object and purpose”.

I have argued that WTO panels and the Appellate Body have not paid enough attention, when analysing individual articles of the TRIPS Agreement, to the purpose of the TRIPS Agreement as a whole, even though the Vienna Convention’s rules mandate that approach. Particularly, there is a lack of analysis of the purposes that are expressly elaborated in the words of the Agreement.  

Other commentators have criticised the way in which the method of interpretation has created a formalistic approach, which does not take into account the way in which domestic law is in fact made. Dinwoodie and Dreyfuss argue that the WTO dispute system needs to take into account not just the intellectual property provision at issue, but also the context through which a member came to enact that provision. A provision may be reached through trade-offs at a national level, and it is too great an interference in national autonomy for those trade-offs to be “unwound” at international level. Dinwoodie and Dreyfuss give the example of the extension of copyright term, which was part of a package that included the exemption from liability of the playing of certain musical works in some restaurants and bars. The WTO found that the musical works exemption was a violation of the TRIPS Agreement, but the US Supreme Court upheld the extension of term.

The purpose of the TRIPS Agreement

The proposition that protecting intellectual property is important for international trade pre-dates the TRIPS Agreement. However, the creation of the TRIPS Agreement represented a significant leap in international intellectual property law as it formalised the relationship between trade and intellectual property. The competing proposition, to the trade/intellectual property linkage, is that intellectual property is a barrier to trade. The TRIPS Agreement represents a compromise between these positions, in the sense that WTO members have “agreed” that certain levels of intellectual property protection are, in the WTO context, acceptable barriers to trade. The preamble states:

"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 . . ."

The fundamental conflict between trade liberalisation and intellectual property barriers lies awkwardly within the TRIPS Agreement framework. The failure of the TRIPS

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18 For an excellent discussion of the relationship between free trade and patents see Luigi Palombi, Gene Cartels: Biotech Patents in the Age of Free Trade (Cheltenham: Edward Elgar, 2009), Ch.3.
Agreement to deal effectively with parallel importing is a stark example.\textsuperscript{19} While the prevention of parallel importing has been creatively legislated for in many jurisdictions, it is fundamentally at odds with the principles of encouraging the international flow of goods enshrined in the GATT.\textsuperscript{20}

Despite the TRIPS Agreement preamble’s warning to balance protection against minimising trade barriers, reports of WTO panels and the Appellate Body are devoid of any real discussion of this balance in the context of any particular dispute. Rather panels look at particular provisions of the Agreement and seem to interpret them as if they incorporate a balance that does not require any additional consideration. Balancing factors arguably should not be used to change the meaning of a particular provision, but if there are competing meanings then the balance should favour the least trade inhibiting interpretation.

A similar phenomenon is observable in the approach of panels and the Appellate Body to arts 7 and 8, the objectives and principles of the Agreement. In Can\textit{ada Pharmaceuticals} the Panel observed that these articles could not be used to undermine the minimum standards of the TRIPS Agreement.\textsuperscript{21} That is undoubtedly so, but the Panel’s approach served to obscure the reason that Canada raised the articles, which was as an interpretative guide to the provision in the TRIPS Agreement which allows patent exceptions.\textsuperscript{22}

Article 7 provides that the protection of intellectual property should contribute to the promotion of technological innovation and to the transfer and dissemination of technology. How this can be achieved is debatable, but at the very least art.7 says that it must be to the “mutual advantage of producers and users and in a manner conducive to social and economic welfare”.

The principles of art.8, among other things, allow the adoption of measures which are “necessary to protect public health and nutrition and to promote the public interest in sectors of vital importance to their socioeconomic and technological development”.

Articles 7 and 8 and are fundamental to an analysis of the object and purpose of the TRIPS Agreement. They are the core principles through which the interests of net-users of intellectual property, which are primarily developing countries, are balanced against those with a comparative advantage in owning intellectual property rights, primarily developed countries. In practice these principles should be central to interpreting the TRIPS flexibilities, which allow exceptions to the core intellectual property rights in order to achieve the purposes articulated in arts 7 and 8.

The importance of arts 7 and 8 to the interpretation of the TRIPS Agreement was underscored in the Doha Declaration on the TRIPS Agreement and Public Health.\textsuperscript{23} This declaration has the status of a subsequent agreement between the parties that is

\textsuperscript{19} Article 5 of the TRIPS Agreement effectively provides that parties are free to prevent or allow parallel importing.
\textsuperscript{20} General Agreement on Tariffs and Trade, October 30, 1947, 55 U.N.T.S. 194.
\textsuperscript{23} WTO, Declaration on the TRIPS Agreement and Public Heath, WT/MIN(01)/Dec/2, 41 I.L.M. 755 para.5(a).
relevant to the interpretation of the TRIPS Agreement in accordance with the Vienna Convention.\textsuperscript{24} Despite this Declaration there have been no WTO reports where there has been a change of approach to place more emphasis on these articles in the interpretation of the TRIPS Agreement. Perhaps this is because the right case has not yet arisen. However, more disturbingly, the Doha Declaration, which was a WTO Ministerial document made at the multilateral level, seems to have had no impact in the real world TRIPS-plus FTA negotiations. If intellectual property chapters in FTAs are legitimate they should at the very least reflect the object and purpose of the TRIPS Agreement, which many TRIPS-plus provisions do not.\textsuperscript{25}

**Consequences of the WTO’s misinterpretation**

The consequences of the WTO’s misinterpretation of the object and purpose of the TRIPS Agreement, which are summarised above, are observable at the international and domestic levels. A key consequence in the international forum is that the TRIPS Agreement’s overarching balancing principles have really become statements with little practical effect. The balance is not treated as a dynamic concern; rather it is treated as already reflected in the minimum standards of the Agreement and, in a practical sense, is passive. This passivity does not accord with the wording of the Agreement which ultimately is where the intentions of the parties are to be found. Indeed, the Appellate Body in *India Patents* affirmed the importance of the words of the Agreement as reflecting the intentions of the parties.\textsuperscript{26} This loss of balance, at the multilateral level of TRIPS interpretation, serves to reinforce what has become a constant drive to increase intellectual property protection in TRIPS-plus FTAs. Arguably, however, the balancing negotiations occur in other forums such as WIPO. The most detailed negotiations on the protection of traditional knowledge and related traditional cultural expressions, for example, have been ongoing at WIPO.

Even though there is a considerable role for WIPO and other non-WTO forums to discuss and negotiate intellectual property protections there are difficulties with intellectual property standards evolving in numerous forums, as fragmentation does occur. As far as WIPO and the WTO are concerned there is an agreement for consultation over intellectual property issues and WIPO has been consulted on matters arising in disputes.\textsuperscript{27}

As the WTO forum is where international intellectual property dispute settlement occurs, the interface between the WTO and other intellectual property forums is very important. The standards agreed elsewhere should, on the one hand, have an interface with the TRIPS Agreement; otherwise dispute settlement under the TRIPS Agreement

\textsuperscript{24} See Vienna Convention on the Law of Treaties, May 23, 1969, art.31(3)(a) which provides that subsequent agreements regarding the interpretation of a treaty shall be taken into account in the process of interpretation together with context.


\textsuperscript{27} WTO-WIPO Co-Operation Agreement, December 22, 1995, 35 I.L.M. 754.
risks making standards that have been agreed, in other multilateral forums, ineffec-
tual. On the other hand, a standard made elsewhere cannot simply be assumed to be
the intention of the TRIPS members. However, it is notable that most WTO members
are also members of WIPO.

One domestic consequence is that countries, for which TRIPS flexibilities\(^{28}\) are
important, may tend to err unduly on the side of caution about whether the flexibilities
would be TRIPS-compliant. Working out whether a so-called flexibility is TRIPS-
compliant involves legal capacity that is not always readily accessible for developing
countries, particularly small developing countries. The “fear” of being taken to the
WTO may also lead such countries to limit TRIPS flexibilities, more narrowly than is
necessary, in their national law.

As a procedural matter WTO panels do not create binding precedent with their
reports. This is, however, fundamentally a principle that while legally correct, is
untrue in many ways. The Appellate Body has stated\(^{29}\):

“Adopted panel reports are an important part of the GATT *acquis*. They are often
considered by subsequent panels. They create legitimate expectations among WTO
members, and therefore, should be taken into account where they are relevant to any
dispute. However, they are not binding, except with respect to resolving the partic-
ular dispute between the parties to that dispute.”

Although this statement was made with reference to GATT reports it equally applies
to all DSB reports. The failure of the DSB to guide the interpretation of the object and
purpose of the TRIPS Agreement is arguably very damaging which impacts well
beyond the correctness or otherwise of the particular dispute between the parties. It
creates an expectation that the object and purpose can be put aside.

**Concluding thoughts**

The rules-based dispute settlement system has failed to provide guidance on inter-
pretation that reflects the object and purpose of the TRIPS Agreement. This failure has
a number of consequences for the international intellectual property system. The
TRIPS Agreement expressly articulates a balance between developed and developing
countries’ interests. The DSB’s failure to use those balancing principles in the inter-
pretation process means that the balance is not achieved. It is possible that some of
these consequences might occur, in any event, because of power politics. However, the
failure of the central dispute resolution system to provide appropriate guidance how
to interpret the object and purpose of TRIPS is a failure of the rules-based system that
requires correction.

\(^{28}\) “TRIPS flexibilities” refers to the ability to have exceptions to intellectual property protection, in
domestic law, in accordance with the provisions of the TRIPS Agreement.

\(^{29}\) “Japan-Taxes on Alcohol Beverages” Report of the Appellate Body, October 4, 1996. WT/DS8/R,
WT/DS9/R, WT/DS10/R.