

Trade Related Aspects of Intellectual Property Rights – Issues for Developing Nations

Charles F. Hickman

BAB 360

College of Business Administration
301 Sparkman, Huntsville, AL 35899
United States of America

The Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement was adopted as Annex 1C of the Agreement Establishing the World Trade Organization in 1994. The adoption of TRIPS was largely at the instigation of developed nations, who are exporters of intellectual property (IP).

This effort began unsuccessfully as an attempt to include an anti-counterfeiting provision in the General Agreement on Tariffs and Trade during the Tokyo round of negotiations in 1973-1979. This effort was instigated by holders of trademarks, in an attempt to provide global enforcement of trademark rights. Although this effort was a failure in accomplishing the stated objective, it did encourage a broader group of IP rights holders to form a coalition to encourage governments to see the lack of IP rights enforcement as a trade related issue, damaging to the economies of IP exporters.

In 1986 IP rights were included as a subject of negotiation in the Uruguay round of GATT negotiations. This effort culminated with the adoption of TRIPS near the end of the Uruguay round, in 1994.

Although instigated by developed nations, developing nations played a significant role in the agreement ultimately reached.

As adopted, TRIPS provides protection for the following categories of IP:

- Part II, Section 1, Articles 9 through 14 – Copyrights
- Part II, Section 2, Articles 15 through 21 – Trademarks
- Part II, Section 3, Articles 22 through 24 – Geographical Indications
- Part II, Section 4, Articles 25 and 26 – Industrial Designs
- Part II, Section 5, Articles 27 through 34 – Patents
- Part II, Section 6, Articles 35 through 38 – Layout-Designs of Integrated Circuits
- Part II, Section 7, Article 39 – Protection of Undisclosed Information

However, as adopted the agreement contains numerous protections for developing nations, sometimes to the consternation of developed nations.

The body of this paper focuses on three aspects of the TRIPS agreement, which provide benefits for developing nations. First, the agreement's requirements for protection of IP rights are procedural. This means that WTO members are required to enact laws that provide for protection of IP rights and legal mechanisms for enforcement. In most cases, the agreement does not require that signatory governments actually enforce the IP rights they grant.

Second, the TRIPS agreement is trade related. Although instigated by developed nations, the relationship of IP rights to other trade related agreements gives developing nations a significant enforcement tool. Upon a WTO determination that a developed nation is violating a free trade agreement, say by illegal agricultural subsidies, developing nations may be entitled to respond by suspending IP rights held by nationals of developed nations.

Finally, the provisions of TRIPS provide significant protection for the health and welfare of WTO members, protection from anticompetitive licensing behavior, resort to WTO dispute resolution and compulsory licensing of patents.

I. Enforcement Requirements Under TRIPS

On April 10, 2007 the United States filed a Request for Consultations under Article 64 of TRIPS, alleging violations by China in the enforcement of IP rights.¹

¹ Panel Report, *China – Measures Affecting the protection and Enforcement of Intellectual Property Rights*, WT/DS362/R (Jan 26, 2009)

Generally the U.S. complaint alleged that China was failing to enforce criminal liability for copyright and trademark infringement, that China's protections afforded to trademarked goods was insufficient where China permitted the auctioning of seized goods after removal of the trademark, and that China's system of requiring prior approval under China's censorship laws for all works entitled to copyright protection resulted in a lack of protection for works being counterfeited, where the works had not been approved by the government for sale and distribution.

As background, it has been estimated that as much as \$7.8 Billion of unlicensed software was used in China in 2010, and that 78% of all software used in China is unlicensed.² This report has been criticized as biased and based on faulty reasoning, but it is clear that IP exporting countries do suffer a significant financial loss when IP is used without compensation to the owner.

The WTO panel determined that the requirements for signatory nations under TRIPS are largely procedural. Under Part III, Sections 1 – 5, members are required to enact laws that provide for civil enforcement of IP rights, by the IP rights holder, and criminal penalties for, “willful trademark counterfeiting or copyright infringement on a commercial scale.” Net IP exporting nations would prefer that nations where infringement is occurring enforce IP rights on behalf of the rights holder. This transfers the cost of enforcement from the exporting nation to those countries where infringement is occurring. Historically, developed nations have not enforced IP rights, but have made provisions in their laws by which the holders of the rights could enforce those rights.

The first element of the U.S. complaint alleged that China was not criminally prosecuting trademark and copyright infringement.

In the TRIPS Panel report, the panel determined that the United States had failed to establish that the IP rights infringement was taking place on a “commercial scale”. It has been noted that this position raises evidentiary challenges for nations seeking to enforce another signatory nation's obligation for criminal enforcement of infringement.³ In his paper, Professor Wu noted that proving commercial level infringement was hampered by China's decentralized manufacturing and retailing structure, as well as a judicial system that is relatively opaque in terms of reported decisions.

The second issue addressed in the China Panel report is disposal of goods confiscated by Chinese customs. The United States complained that these goods were being auctioned by Chinese customs after the infringing trademarks had been removed. The China panel determined that these Customs measures were not subject to TRIPS articles 51 through 60, dealing with confiscation and disposal of infringing goods, to the extent the goods were to be exported. To the extent the goods were imported, the above mentioned TRIPS provisions provide that systematic auctions of infringing goods after removal of marks is not consistent with TRIPS article 59. The panel recommended that China amend its Copyright Law and Customs measures to bring them into conformity with China's obligation under the TRIPS agreement.

The third issue dealt with the China Panel report is the Chinese Copyright Laws requirement that, to qualify for a copyright enforcement, works must have been approved under Chinese censorship laws. The process for obtaining approval under Chinese censorship laws is time consuming. Therefore infringing goods may be commercially available for significant periods of time prior to the owner of the IP rights being able to enforce their copyright. The China Panel determined that this was inconsistent with China's obligations under China's TRIPS obligation. The Panel did note that China did have the right to prohibit dissemination of works banned due to illegal content.

II. Availability of TRIPS as an Enforcement Mechanism

The WTO provides a mechanism for dispute resolution and enforcement of trade rules. Under the Dispute Resolution Understanding of the WTO, a complaint of violation is initiated by filing a Request for Consultations.⁴ If consultations are not successful in resolving a dispute, the complaining party may request the establishment of a panel.⁵

² Business Software Alliance and International Data Corp., Eighth Annual BSA Global Software 2010 Piracy Study, May 2011

³ Peter K. Wu, TRIPS Enforcement and Developing Countries, **26 Am. U. Int'l L. Rev. 727 (2011)**

⁴ Understanding on Rules and Procedures Governing the Settlement of Disputes, Article 4(3)

⁵ Id., Article 4(7)

The panel serves as a quasi judicial body, considering evidence and reaching an objective assessment of the applicability of, and conformity, with the relevant covered agreement.⁶ The panel report may be agreed to by the parties. If not it will be considered by the Dispute Settlement Body, which may adopt it or, by consensus, not adopt it. Aggrieved parties may request an appeal to the Appellate Body, which can uphold, modify or reverse the legal findings and conclusions of the panel.⁷ Upon a final decision that a member is not compliant with a covered agreement, the member is required to notify the DSB of its intent regarding adoption of recommendations.⁸ If a member either fails to agree to implement the DSB's recommendations or rulings, or agrees and then fails to follow through on its agreement within a reasonable time, the noncompliant member is required, if requested, to enter in to negotiations regarding compensation for its noncompliance. If no agreement regarding compensation is reached, the complaining member may seek permission to suspend its trade concessions to the noncompliant member.⁹

Members are generally required to first seek to suspend concessions or other obligations with regard to the same sector wherein the panel or Appellate Body found a violation. If that is not practical or effective, the complaining member generally is required to seek to suspend concessions or other obligations under the same agreement. However, if that is not practical or effective, the complaining member may seek to suspend concessions or other obligations under another covered agreement.¹⁰ As noted in other literature, developing nations frequently have relatively little economic power regarding enforcement of trade sanctions such as illegal agricultural subsidies.¹¹ As Professor Brewster notes, the ability of the United States to impose effective sanctions on a developing nation, by imposing increased tariffs, is significantly greater than the ability of a developing nation to effectively sanction the United States by imposing tariffs on U.S. goods. This is due to the fact that the U.S. is likely to represent a significant market for a developing nation's goods, while the developing nation's market will be relatively insignificant to the U.S.

As noted above, the United States and other developed nations are net exporters of IP. It was the United States and other developed nations that sought the TRIPS agreement. As provided in the Dispute Settlement Understanding, if retaliatory tariffs are believed not to be practical or effective, then the complaining member may seek to suspend concessions or other obligations under TRIPS.

As a means of enforcing compliance, suspension of IP rights in a developing nation is more likely to induce compliance under trade agreements in a developed nation than retaliatory tariffs.

III. Provisions for Protection of Health and Welfare of WTO Members, Protection from Anticompetitive Licensing and Compulsory Licensing of Patents

This section deals with protections in TRIPS for the legitimate needs of all members states, but largely for the protection of developing nations.

Article 31 contains provisions allowing member states to grant compulsory licenses. Requirements for such a grant include:

- An effort be made to negotiate a license.
This is not required before a grant of a compulsory license in the case of a national emergency.
- The scope and duration of the compulsory license is limited to the purpose for which it was authorized.
- The use is non-exclusive
- The use is non-assignable
- The use is predominately for the domestic market
- The authorization will be cancelled when the circumstances that lead to its grant have ended.

⁶ Id., Article 11

⁷ Id., Article 17

⁸ Id., Article 21

⁹ Id., Article 22

¹⁰ Id., Article 22(3)

¹¹ Rachel Brewster, The Surprising Benefits to Developing Countries of Linking International Trade and Intellectual Property, Rachel Brewster, Journal of International Trade; Summer 2011; 12, 1.

- The patent holder be paid adequate remuneration
- The compulsory license and amount of remuneration shall be subject to judicial review.

The right to resort to compulsory licensing has been used primarily as a negotiating tool to obtain price concessions from patent holders. Several countries have used this to obtain medicines at reasonable prices. Even the United States threatened compulsory licensing of ciprofloxacin (Cipro) which it intended to stockpile as a response to anthrax attacks in 2001.¹²

At least two countries have used compulsory licensing to obtain pharmaceuticals at reasonable prices. These include:

- Thailand – AIDs drugs and Plavix
- Brazil – efavirenz, an antiviral¹³

The compulsory licensing of a medication does not always solve a developing nation's need. If the country lacks the necessary manufacturing capacity to produce a medicine, a license is of little use.

In 2005 the General Council of the WTO proposed an amendment to TRIPS Article 31.¹⁴ This amendment, Titled Article 31bis, provides for two part compulsory licensing. If a nation without a pharmaceutical manufacturing industry is in need of a medicine, it may issue a compulsory license. Another country may, in response, issue a compulsory license and manufacture the medicine for export to the first country. A license fee must be paid, but only by the country manufacturing the drug.

It appears this has spawned a reaction in developed nations. It appears that both India and Brazil, countries with robust generic pharmaceutical industries, shipped drugs, legally manufactured under a compulsory license, to a country where the drug had been compulsorily licensed. During shipment the drugs were seized by nations where the drugs were infringing. Both India and Brazil have requested consultations with the Netherlands and the European Union under the DSU.¹⁵

At present TRIPS Article 31bis is a Waiver and is in effect while governments seek its ratification.¹⁶

Contained in Article 8 of TRIPS is language to the effect that members may adopt such measures as necessary to protect the health and nutrition of their country. Article 30 provides that members may provide limited exceptions to patent rights granted under TRIPS, "provided that such exceptions to not unreasonably conflict" with the rights of the patent holder.

Belgium has now granted its authorities the power to allow "measures necessary to protect public health". This is a remarkable extension of the powers granted consuming nations under TRIPS, in that Belgium purports to act, not under Article 31, regarding grant of compulsory licenses, but rather under Articles 8 and 30.¹⁷

In addition to compulsory licensing, TRIPS Article 40 permits members to adopt provisions to prevent anticompetitive behavior. Italy has issued compulsory licenses for several medications under the Italian Competition Law.¹⁸

IV. Conclusion

While it can be said that TRIPS was conceived largely for the protection of exporters of IP rights, implementation has evolved in a manner which frequently provides protection from onerous burdens on developing nations. This is true regarding resources developing nations must devote to enforcement and with regard to access to important medicines. It remains to be seen the extent to which the agreement results in significant costs to developing nations needing access to IP rights.

¹² Jerome H. Reichman, J. Law Med. Ethics, 2009; 37(2)

¹³ Id.

¹⁴ Amendment of the TRIPS Agreement, WTO WT/L/641; Dec. 6, 2005

¹⁵ DS 408 and DS 409

¹⁶ Decision of 30 August 2004

¹⁷ Id.

¹⁸ Reichman, Supra. Note 12