SUSPENDING IP OBLIGATIONS UNDER TRIPS:

A VIABLE ALTERNATIVE TO ENFORCE PREVAILING WTO RULINGS?

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Introduction

In two recent prominent disputes in the World Trade Organization (WTO), developing country complainants are using the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) to induce compliance with favorable WTO rulings. Brazil in the *US – Cotton* dispute and Antigua in the *US – Gambling* case announced their intention to "cross-retaliate" against WTO-inconsistent measures of the US by suspending obligations under TRIPS.[1] This approach can offer a practical alternative enforcement mechanism especially for developing countries and smaller economies in disputes against (industrialized) countries with significantly greater economic power in international trade. The concept has been explored in some academic writings and approved by WTO arbitrators in a recent *US – Gambling* decision and in response to Ecuador's retaliation request in the *EC – Bananas III* case.[2] It is now time for a thorough and comprehensive analysis of the opportunities and problems surrounding intellectual property (IP) cross-retaliation.

Given the imbalances in trade and economic power amongst WTO Members, the central issue is whether suspending TRIPS obligations can do a significantly better job than traditional retaliation in facilitating compliance by powerful WTO Members. This policy paper examines the rationale and wider economic feasibility of suspending IP rights; looks at the requirements set out by the WTO dispute settlement system; addresses, in brief, potential conflicts with other multi- or bilateral obligations; and points to crucial factors for implementing an authorization to suspend TRIPS obligations in domestic IP laws. The main conclusion is that ***in some cases, IP cross-retaliation can be effective, legal and practical*** and should be considered a viable means to enforce a WTO ruling. Another added value lies in the potential to generate ***positive welfare effects***: if implemented wisely, suspending TRIPS obligations can create temporary policy space for designing the domestic intellectual property regime in a way that facilitates technological development and domestic innovation through imitation and technological learning. A successful use of suspending IP protection requires, however, that (developing) countries establish domestic implementation systems that are economically feasible, compatible with WTO law as well as other international obligations on IP and consistent with their domestic constitutional treatment of IP.

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The Basic Rationale for IP Cross-Retaliation

Dispute settlement in the WTO generally aims at the modification or withdrawal of national measures which have been found to be in conflict with WTO law. Where a country is unable or unwilling to do so, the rules on dispute settlement allow the prevailing country – as a last resort – to retaliate against the non-complying Member by (temporarily) suspending tariff concessions or other WTO obligations.[3] Generally, such retaliation should relate to the same sector and same agreement at issue in the dispute, and it typically involves raising tariffs on imports from the non-complying country. However, the rules also allow Members to 'cross-retaliate' by suspending obligations in other sectors and agreements under specific

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circumstances.[4] Therefore, it *can* be legal for a country such as Brazil to suspend protection of US IP rights in retaliation for excessive cotton subsidies granted to US farmers; or for Antigua to do the same in response to the US denying market access for Antiguan online gambling services.

What is the main argument in favor of IP cross-retaliation? Consider a small economy such as Antigua retaliating by raising tariffs on US imports – it would hurt the Antiguan economy and its consumers much more than it would impact on the targeted US importers and producers. This 'traditional' retaliation is therefore often ineffective in facilitating compliance and may have significant negative effects on the domestic economy. It is tantamount to 'shooting oneself in the foot'. IP, however, is often the main asset of most advanced, high technology industries since more and more products and services are to some extent protected by various IP rights (such as patents, copyrights, industrial designs, geographical indications or trademarks). Effective and strong IP protection in all markets around the world is one of the central concerns for these industries in order to be able to trade IP protected products and services globally. For such protection of IP assets on a global scale, TRIPS is currently the most important multilateral agreement.

Given the value that IP protection under TRIPS has for most companies in industrialized countries, ***suspending TRIPS obligations is likely to serve as an effective tool in bringing these countries into compliance with WTO law***. A withdrawal of obligations under TRIPS can generally be expected to have a significant impact on key industries and thereby provide a strong incentive to industrialized countries to comply with WTO rulings. Affected industries are likely to lobby their respective (non-complying) governments to do everything necessary to avoid such suspensions in the first place and, if already in place, to act as soon as possible to remove them. Imagine the potential impact on Microsoft, Pfizer or Nike if Brazil was to suspend copyright protection for software, patent protection for

EC – Bananas III: In 1997, the WTO Appellate Body sided with Ecuador in its challenge of the Banana importation regime of the European Communities (EC) which offered preferential treatment for imports from certain African, Caribbean and Pacific (ACP) countries. After a confirmation by a WTO Panel that the EC had not brought its importation regime into compliance with WTO rules, Ecuador requested the right to retaliate against the EC by suspending, inter alia, obligations under TRIPS. In March 2000, a WTO arbitration panel found that Ecuador could retaliate by suspending TRIPS to the extent that retaliation in the sectors and WTO agreements at issue in the dispute was insufficient to reach the level of harm suffered by Ecuador. In the end, however, Ecuador never relied on a WTO authorization to retaliate, and instead managed to settle the dispute with the EC in 2001. Even though the dispute recently resurfaced over the WTO consistency of the EC's new Banana regime, a fresh option for Ecuador to suspend TRIPS will depend primarily on the EC's ability to shield its continuous preferential treatment for ACP countries under special WTO rules for regional trade agreements.

US – Gambling: In 2003, the Caribbean island state of Antigua and Barbuda (Antigua) challenged certain US measures preventing online gambling operators in Antigua from offering their services to US customers over the internet. While the WTO Appellate Body acknowledged the right of the US to determine its public policies and moral positions on sensitive issues such as gambling, it nevertheless found that the US measures regarding horse-racing were applied in a discriminatory manner to foreign services suppliers as compared to domestic ones. After a WTO panel found the US in continuous non-compliance with WTO rules, Antigua requested the right to cross-retaliate by suspending IP protection for US right holders under TRIPS. In December 2007, a WTO arbitration panel confirmed Antigua's right to request the suspension of TRIPS obligations at a level not exceeding US$21 million annually. At the same time, the US has taken the unprecedented step of withdrawing its relevant WTO commitments on market access for foreign gambling services under a specific GATS procedure in order to end the *US – Gambling* dispute. Arbitration over the amount of compensation owed to all WTO Members affected by this withdrawal is currently ongoing.

US – Cotton: In 2005, the WTO Appellate Body decided in favor of Brazil over its claim that various US subsidy and credit programs for cotton growers and exporters violated WTO rules. A recent WTO panel confirmation that the US has not fully brought its laws in compliance is under appeal as of 30 April 2008. Brazil had already requested to retaliate by suspending IP obligations under TRIPS. Once the appeal is decided, the dispute can move to arbitration over the legality of Brazil's request for IP cross-retaliation. If the arbitrators again side with Brazil, another, and in this instance much more potent developing country, will obtain the option of suspending TRIPS to induce compliance with WTO rules – unless, of course, the whole issue is resolved in the ongoing Doha negotiations over agricultural subsidies.

pharmaceuticals, or trademark protection for certain brand names and logos in order to pressure the US to implement the WTO rulings in *US – Cotton*. Therefore, while its effectiveness depends on further aspects of economic feasibility discussed below, suspending obligations under TRIPS generally provides a much stronger incentive to industrialized countries to comply with WTO rulings than traditional forms of retaliation.

In addition, suspending IP protection may have ***positive welfare effects*** for a (developing) economy, especially in education and health. It can increase the availability of the respective IP protected goods and/or services in the domestic market – for example by authorizing the production of a fixed amount of a crucial (otherwise patented) medication in order to facilitate access to these drugs by poorer parts of the population. It could be used to extend exceptions in copyright beyond the strict limits of the international copyright regime (as incorporated in TRIPS)[5] so as to allow translation and reproduction of scientific textbooks for educational purposes. Suspending IP rights might also enable domestic research institutions and industry to access, experiment with, utilize, improve and disseminate the so far protected technology and thereby foster technological learning and development as well as domestic innovation through imitation.[6] Given that much of TRIPS is widely perceived as a constraint on the ability to tailor IP protection to the specific needs of the domestic economy, the ability to suspend TRIPS obligations can create positive welfare effects if the suspension is utilized to make policy space in areas where TRIPS imposes obligations beyond the level suited for the domestic needs of the retaliating country. For example, (temporarily) suspending the constraints in Art.30 and 31 of TRIPS on patent exceptions and compulsory licenses could be used to enable access to and (experimental) use of patented technology in a way which facilitates the development of value added products, other follow-on innovations or merely the process of technological learning.

Conditions under WTO Dispute Settlement Rules

In order to retaliate by suspending obligations from an agreement other than the one infringed by the non-complying country (cross-retaliation), the retaliating country must show that it is either *not practicable* or *not effective* to suspend obligations in the same sector or same Agreement and that "*the circumstances are serious enough*".[7] Further, the negative impact of retaliation on the non-complying country must be *equivalent* to the economic harm inflicted by the WTO inconsistent measure.[8] The non-complying country can challenge whether a request for suspending obligations complies with these requirements in non-appealable arbitration proceedings.

In *EC-Bananas III* and recently in *US – Gambling*, WTO arbitrators elaborated on the specific requirements for cross-retaliation.[9] Effectively, the retaliating country must assess all sectors of each and every agreement where the other country is in violation with WTO rules. It must offer reasons for non-practicality or, alternatively, non-effectiveness of suspending obligations in all these areas. Once the retaliating country has submitted such information, the non-complying country then carries the initial burden to prove that retaliation under the same sector and/or same agreement is both practical and effective.[10]

Practicality

The *EC-Bananas III* arbitrators explained that an examination of *practicality* concerns the question of whether a suspension option is "available for application in practice as well as suited for being used in a particular case".[11] In the case at hand, Ecuador reasoned that suspending tariff concessions was not practicable since the overwhelming portion of EC imports are primary and investment goods so that higher tariffs on these goods increase the cost of domestic production. Since the EC was unable to show that alternative sources of supply were readily available at similar prices and without significant transaction costs, the arbitrators concluded that the EC had not shown that suspension of tariff concessions on primary- and investment goods is practicable.[12] Along the same lines, Brazil supported its request for cross-retaliation by arguing that additional import duties on US goods negatively affect the costs of inputs and capital goods on the Brazilian economy, thereby triggering inflation.[13] In a similar fashion, Antigua maintained in its request to suspend TRIPS obligations that imposing higher import duties or more service restrictions has a disproportionate and adverse impact on its citizens by making these products and services more expensive.[14] This argument based on welfare losses to end users has been accepted in principle by the arbitrators in the *EC – Bananas III* case.[15] The *US – Gambling* arbitrators agreed with the definition of practicality in *EC – Bananas III*, but did not distinguish in their concluding findings between practicality and effectiveness.[16] In conclusion, ***a (developing) country can consider that suspending obligations is not "practicable" as soon as such suspension increases the costs for the affected goods or services on the domestic market*** – be they for end use for consumers or for further manufacturing, processing or other industry use.

Effectiveness

The retaliating country can *alternatively* argue that suspension in the same sector and/or same agreement is *not effective*. The arbitrators in both disputes interpreted the term effective as connoting "powerful in effect", "making a strong impression", and "having an effect or result". They stressed that this condition empowers the retaliating country to ensure that the impact of suspension is strong and has the desired result of inducing compliance.[17] ***Any suspension which does not have a strong and powerful effect can thus be argued to be not effective***. In *EC-Bananas III*, the arbitrators acknowledged that as Ecuador only accounts for a negligible proportion of EC exports, tariff raises on EC imports are unlikely to have a significant effect. Brazil and Antigua also relied on this reasoning when they pointed to the comparable marginal impact any imposition of higher import duties would have on US exports.[18] In this regard, the *US – Gambling* arbitrators found satisfactory Antigua's specific explanations on the lack of impact of suspending its existing service commitments in the areas of telecommunication, transportation, travel and insurance.[19]

Seriousness of Circumstances

In order to cross-retaliate by suspending obligations under distinct WTO agreements, the retaliating country must also explain why it thinks that *"the circumstances are serious enough"*. In *EC-Bananas III*, the arbitrators read this requirement especially in light of the following further factors from the list in Art.22.3 (d) of the Dispute Settlement Understanding (DSU):

(1) the trade affected by the WTO inconsistent measure and its importance for the retaliating country;

(2) the broader economic elements relating to the (trade) impairment in the retaliating country.[20]

In this regard, the arbitrators found sufficient Ecuador's arguments on the importance of the affected bananas sector for its domestic economy and on the relation between the impaired trade in this sector and the general economic crisis in Ecuador.[21] Antigua has equally relied on the importance of its online gambling services for the national economy and the adverse impact of the measures imposed by the United States prohibiting these services in the US.[22]

It further pointed to the wider economic elements (such as its extremely limited natural resources, the dependency on tourism and the vulnerability of that sector as well as attempts to develop (online gambling) services trade to diversify its economy) relevant to the grave impact of the US measures.[23] Finally, Antigua had, in relation to the practicality test, already described the potentially harmful consequences of same sector / same agreement retaliation. By agreeing with the above interpretation of serious circumstances in the context of DSU Art.22:3 (d), the arbitrators in *US – Gambling* accepted Antigua's points as sufficiently establishing the seriousness of the circumstances under DSU Art.22:3 (c).[24] Thus, a key aspect to determining serious consequences is the impact that non-compliance has on the trade and economy of the retaliating country. ***High importance of the affected trade sectors and a strong impact on the domestic economy can serve as a 'justification' for IP cross-retaliation.***

Equalizing the level of harm

An important point following from the *EC – Bananas III* arbitration is that ***even if retaliation is both effective and practical to some extent in the same sectors and same agreements, the retaliating country can still move on to suspending TRIPS obligations insofar as retaliation in the same sector/agreement is insufficient to equalize the level of harm suffered by the non-complying country***. Ecuador therefore was authorized to suspend TRIPS obligations, even though the arbitrators found that suspending same sector / agreement obligations under the GATT and the GATS was practicable and effective to some extent. However, the arbitrators stressed that Ecuador may only resort to IP cross-retaliation "to the extent that suspension requested under the GATT and the GATS (…) is insufficient to reach the level of nullification and impairment" it suffered.[25]

A new approach to cross-retaliation?

Under the ongoing review of the DSU, some developing countries have put forward the ***idea of full, unconditional cross-retaliation*** – but limited to disputes initiated by developing countries against developed countries.[26] If the WTO dispute settlement system truly aims to "secure the withdrawal of (WTO inconsistent) measures" (Art.3.7 DSU), then there is no reason to retain the restrictions the current system places on cross-retaliation in the DSU. Instead, unrestricted retaliation across the board of commitments made during the Uruguay Round would not only facilitate compliance, but also allow reinforcement of the reciprocal balance of trade interests at the level of individual trade disputes in the WTO. In line with the proposal made by India in 2003, WTO Members should consider amending Art.22.3 (a) – (c) DSU in order to abolish the hierarchy for choosing the sector and agreements under which retaliation is conducted. It must however be stressed that such an amendment is not necessary for (developing) countries to make effective use of cross-retaliation as the existing DSU requirements will very seldom be a real inhibiting factor for IP cross-retaliation. Instead, countries should make sure that they assess their options to make IP suspension economically feasible and have a tailored implementation system available in their domestic IP laws.

Summing up

In conclusion, the WTO arbitration decisions on cross-retaliation in the WTO dispute settlement system so far indicate that meeting the ***DSU requirements do not impose significant constraints on a developing country's ability to suspend TRIPS obligations***. IP cross-retaliation is justified if:

(1) retaliation through the raising of tariffs (or imposing other same sector / same agreement restrictions) either:

i. leads to a price increase (or similar form of harm) to the domestic market of the retaliating country; *or*

ii. has an insignificant impact on the non-complying country;

and

(2) trade in the sectors affected by non-compliance is of high importance for the retaliating country.

Addressing Conflicts with other International IP Agreements

Any authorization to suspend IP protection under TRIPS generally does not extend to obligations the retaliating country might have under *different multilateral IP agreements*[27] or *bilateral Free Trade Agreements* (FTAs) with the non-complying country. Since these obligations, however, often overlap with or even go beyond the protection required under TRIPS, any suspension must take into account its impact and legality under these other international agreements. As a general rule, simultaneously suspending IP protection below- or on an equal level with the TRIPS 'minimum standards' should be justified under the general right to adopt countermeasures in accordance with Art. 49-55 of the Rules on State Responsibility for International Wrongful Acts.[28] If, however, the retaliating country is bound by IP protection which exceeds TRIPS, in particular by any so called 'TRIPS-plus' standards found in recent FTAs, a right to suspend TRIPS may not necessarily cover a suspension of TRIPS-plus standards under the countermeasure doctrine. For example, the TRIPS-plus obligation in the EC – CARIFORUM Economic Partnership Agreement (EPA)[29] to comply with WIPO Copyright Treaty provisions (including on the right to place copyrighted material online) provides additional exclusive exploitation opportunities for the right holder. If Antigua suspended ***all*** domestic copyright protection for works of US right holders this would simultaneously deprive the right holders of these additional forms of exploitation. Such suspension thereby affects the right holder's economic interests more and therefore causes a potentially higher degree of economic loss which might not correspond with the harm caused by the initial wrongful act (in the form of WTO non-compliance). Here, the retaliating country must carefully assess whether the suspension is proportional[30] and whether any dispute settlement procedures set out in FTAs must be exhausted.[31]

There may also be constitutional issues in the domestic law of some states, depending on how strictly they define IP and how that may relate to rules on expropriation or government takings. Indeed, as suggested by some commentators, (temporary) withdrawing of IP rights might constitute an act of expropriation under national or international law.[32]

These issues indicate the complexity of the matter. It follows that any country aiming to suspend obligations under TRIPS is well advised to scrutinize (1) any potential conflicts with existing international and regional agreements to which they are parties and (2) any possible domestic (constitutional) law restraints on IP policy.

Factors Determining Economic Feasibility

For TRIPS suspension to achieve its core rationale of inducing WTO compliance as well as creating positive welfare effects in an individual case, it must be economically feasible. This in turn depends in large part on factors relating to the domestic market and technological capacity in the retaliating country. These factors are examined below together with options to *extend* the utility and impact of suspending TRIPS obligations beyond the domestic setting.

Domestic market size and consumer demand

First, a *sufficient domestic market size and consumer demand* are crucial for IP suspension to have a significant impact on the non-complying country. Since any suspension is limited to the territory of the retaliating member, exports to other countries where the products or services are IP protected, in principle remain illegal.[33] ***This general rule however does not prevent exports to countries where no protection applies to these products***[34] so that sales on these markets would increase the economic harm inflicted on the right holders in the non-complying country. A member suspending patents for HIV/AIDS medication, for example, could export the medicine to LDCs where most of these drugs generally are not under patent.

A related question is whether an importing country could rely on the doctrine of *international exhaustion* of IP rights[35] in order to (parallel) import goods produced under IP suspension in the retaliating country. This would allow any WTO Member wishing to benefit from the suspension regime in the retaliating Member to legalize the resale, in its own territory, of goods produced under suspension abroad. This has the potential for a significant extension of the retaliatory impact and may equally spread welfare effects in the form of lower prices and increased availability to the countries adopting such a broad understanding of international exhaustion.[36] The key legal issue here is whether such an approach is covered under the freedom each WTO Member enjoys under Art.6 TRIPS "to establish its own regime for [such] exhaustion without challenge".[37] Can international exhaustion be expanded to cover not only goods sold with the right holder's consent abroad but also those produced under a WTO-authorized suspension regime abroad? Although Footnote 13 to Art.51 TRIPS seems to indicate a narrow understanding which focuses on goods "put on the market in another country *by or with the consent of the right holder*", one can validly argue that this understanding is limited to the specific context of Art.51 TRIPS and does not constrain the flexibility inherent in Art.6 TRIPS.[38] Countries wishing to adopt such an approach however should keep in mind that they may face political pressure and a possible dispute in the WTO over the TRIPS consistency of such an understanding of exhaustion.[39] Nevertheless, even the threat of doing so may provide an effective means of putting pressure on non-complying states.

Another option for WTO-compliant trade with goods produced under IP suspension can be created in cases where WTO inconsistent measures (e.g. agricultural subsidies) impair the trade benefits of *several* countries which then join forces as complainants in WTO dispute settlement proceedings. If they prevail and the respondent fails to change its WTO inconsistent measures, the complainants could consider a *coordinated enforcement strategy* focusing on suspending IP-protected products from the non-complying country. If the legal requirements for IP suspension are present in all prevailing countries, they could ensure their ability to freely trade these products amongst themselves.[40] This might be an interesting opportunity especially for developing countries and small market economies, as it can significantly enlarge the economic impact of IP suspension and tackle problems of limited domestic market size and lack of technological capability. It could be particularly useful from a public health perspective as soon as at least one of the complainants has the manufacturing capacity to produce (patented) pharmaceuticals which could then be made available at cheaper rates in all other complaining countries as well.

Finally, making use of the global reach of the *internet* probably presents the option with the greatest potential to multiply the impact of IP suspension. According to news reports, Antigua employed this idea (by considering to offer US copyrighted works for download online) to circumvent the problem of its small domestic market. The automatic worldwide availability of these works, including on markets abroad where they could be downloaded and shared with other users without a realistic possibility to police such activities certainly would have a significant impact on right holders. However, unless a sophisticated system is put in place that controls the number of downloads and places an economic value to each and every one of them, the necessary equivalence of harms will be impossible to measure let alone control or implement. Even if Antigua sets up such a mechanism, several further questions – such as how to determine a realistic value for each download or whether Antigua is responsible for further exploitation by users – remain wide open.

One can conclude that as a starting point, the size of the domestic market will have a significant impact on the economic harm inflicted on the non-complying country and thus on its willingness to implement unpopular WTO rulings. On the other hand, various options for exporting goods produced under suspension can seriously enlarge the retaliatory impact. Some of those however either depend on coordinated action with the importing country or are prone to legal challenges.

Technical capacity and know-how

The second decisive factor for IP cross-retaliation to unfold its positive enforcement and welfare effects is the retaliating countries' *technical capacity and general know-how* for a quick and large-scale domestic production of copies. While digital technology makes this not too difficult for software or products of the movie and music industries, this is not the case for producing pharmaceuticals, as shown by the long debate about TRIPS and public health, effective compulsory licensing, and lack of domestic production facilities. Therefore, ***importing*** such goods or services (for which IP protection has been suspended) is a feasible option especially from countries where the respective good or service is not covered by IP protection. Furthermore, imports even from other sources can have compliance inducing and especially positive welfare effects, if the retaliating country is able to exploit these imports in a useful or beneficial way. One could think of importing otherwise IP protected components which are then assembled and further utilized in the retaliating country. This would equally circumvent the lack of domestic technological and manufacturing capacity in relation to sophisticated, high-tech components whose later assembly is rather straightforward. Overall, technological know-how and manufacturing capacity are factors which not only impact upon the ability to meet the rationale for IP cross-retaliation, but equally determine the achievement of positive welfare effects.

Sufficient security and certainty

The third determining factor is the need for *sufficient security and certainty* for private sector based production of copies which ensures that related investments can be financially recouped.[41] This requires, in particular, certainty about the duration of IP suspension and could be seriously hampered if the non-complying Member comes back into compliance or the disputing parties agree to resolve the matter by other means. However, insufficient predictability and security for commercial actors could be tackled by relying on state-owned enterprises which do not operate under market conditions or by state guarantees issued to private sector producers. One could envision a mechanism under which necessary investments to initiate production or other forms of start up costs are borne by the retaliating country in cases of an abrupt termination of the authority to suspend IP protection. Such a termination would restore the original TRIPS obligations and therefore equally affect the legality of further commercial exploitation of the subject matter for which IP protection had been suspended. Any further sale, distribution or offer for sale of goods produced under suspension would have to halt. On the basis of Art.6 TRIPS (which guarantees each WTO Member freedom to determine the domestic concept on exhaustion of IP rights) however, the retaliating country could allow the further re-sale of goods already produced under suspension.[42].

Practical Implementation of IP cross-retaliation

Members have adopted or amended domestic legislative frameworks for the protection of IP, in order to implement WTO obligations under TRIPS. To suspend TRIPS obligations as a retaliatory measure, a Member will have to enact legislation which allows suspending IP rights to the extent authorized by the dispute settlement organs of the WTO. Such legislation must not only fit into the domestic legal system, including constitutional and other statutory norms relating to IP, but further ensure that a suspension of IP protection is legal under WTO and other international obligations. In addition, a Member will need to carefully assess whether IP cross-retaliation is economically feasible, taking into account the domestic market size and technological capacity as well as options to trade goods produced under IP suspension.

For the time being, the lack of readily available national implementation regimes may well be the main stumbling block for the successful use (or threat) of suspending TRIPS as a means of WTO cross-retaliation. Carefully drafting such a regime – let alone passing it through the necessary law-making institutions – will take some time and expertise. Countries considering this option are well advised to start the process as soon as possible.

Analysis of different implementation mechanisms[43] shows that the key problem is to control the level and effect of suspension, in order to ensure equivalence of harms. No matter which type of implementation is selected, its outcome should be that a national authority of the retaliating state *effectively takes over the position of the right holder* for the period of suspension and exercises (some of) the exclusive rights. This would allow the necessary control over the retaliation and limit any potential for excessive retaliation which in turn could give raise to counter-claims brought against the retaliating state for violating TRIPS. It would equally guarantee control over positive welfare effects deriving from the implementation of IP cross-retaliation.

Opportunities and Challenges

Under the following scenario, IP cross-retaliation cannot only play a significant role in enforcing a prevailing WTO ruling but bring about positive welfare effects.

1) Suspending IP protection under TRIPS is likely to meet the *requirements of the WTO dispute settlement rules*, if the WTO breach of the non-complying country affects key trade sectors of the retaliating country and if other types of retaliation (such as increasing import tariffs) have negative effects on the domestic economy or, ***alternatively,*** little impact on the exports of the non-complying country. Furthermore, insofar as the economic loss caused by the non-complying country cannot be offset through retaliation in the same sector and same agreement, a country has the right to cross-retaliate.
2) A simultaneous (and often incidental) suspension of *other international obligations to protect IP* can usually be justified under the doctrine of countermeasures if these obligations are 'TRIPS-minus' or equal to TRIPS standards. In the case of 'TRIPS-plus' obligations, countries should carefully assess whether their countermeasures are still proportional. If they derive from FTAs with an independent system for dispute settlement, these procedures might have to be followed as well.
3) Cross-retaliating against breaches of WTO law by suspending IP protection under TRIPS can fulfill its goal of effective enforcement and positive welfare effects, only if it is *economically feasible*. This requires (a) sufficient domestic market size or legal ways to export goods produced under IP suspension; (b) technical capacity and know-how to engage in quick and large-scale production; and (c) mechanisms for security and certainty for private sector producers.
4) Drafting a *domestic implementation mechanism* which ensures the objectives of IP cross-retaliation, its economic feasibility and its legality is imperative for the successful use of suspending TRIPS. ***Interested countries should act now.*** A key element for any workable framework is that it enables the retaliating state to retain effective control over the retaliation and the economic loss inflicted on the right holder.

With regard to the current disputes where such retaliation has been requested, both Antigua as well as Brazil can meet the requirements for cross-retaliation under the dispute settlement rules of the WTO. They both however should carefully assess the potential impact their retaliation might have on obligations under other international agreements to protect IP – especially if these obligations go beyond TRIPS. Furthermore, it will certainly be easier for Brazil than for Antigua to ensure economic feasibility since the former has both the necessary domestic market size as well as the manufacturing and technological capacity to pose a significant threat when producing goods under IP suspension. Antigua on the other hand will have to rely on mechanisms for legal trade with goods produced under IP suspension in order to increase the impact on US right holders and thereby induce compliance by the US.[44]

Antigua's case points to a key flaw of the WTO dispute settlement system. It has the aim to enshrine *"the rule of law in international* *economic and trade relations, thus setting universal rules and disciplines over temptations of unilateralism and the law of the jungle*".[45] This arguably implies a system which also offers WTO Members with small economies an effective mechanism to enforce international obligations. In practice, however, the dispute settlement tool for upholding WTO obligations reinforces the primacy of power. In this regard it is true that "while all WTO members are formally equal, the system's design gives some countries more power than others."[46] The current WTO dispute settlement system that relies on national enforcement mechanisms therefore is simply not even-handed and fair. While the notion of IP cross-retaliation may correct some of these inequalities, its core limitation equally relates to the size of the domestic market as well as the economic and industrial capabilities of the retaliating country.

[1] See *United States – Subsidies on Upland Cotton (US – Cotton)*, Recourse to Art.7.9 SCM and Art.22.2 DSU by Brazil (WTDS267/26), 07/10/2005; *United States – Measures Affecting the Cross-Border Supply of Gambling and Betting Services* (*US – Gambling*), Recourse by Antigua and Barbuda to Art.22.2 DSU (WT/DS285/22), 22/06/2007

[2] *US – Gambling*, Recourse to Arbitration by the United States under Article 22:6 of the DSU - Decision of the Arbitrator (WT/DS285/ARB), 21/12/2007; *European Communities – Regime for the Importation, Sale and Distribution of Bananas (EC – Bananas III)*, Recourse to Arbitration by the European Communities under Art.22.6 of the DSU, (WT/DS27/ARB/ECU), 24/03/2000. See also A Subramanian & J Watal, *Can TRIPS Serve as an Enforcement Device for Developing Countries in the WTO?* (3) 33 JIEL (2000), 403-416. Their ideas were more recently picked up by M Basso & E Beas *Cross-retaliation through TRIPS in the Cotton Dispute?* Bridges Monthly Review Vol.9 No.5 (2005), 19-20 – available online at http://www.ictsd.org/monthly/bridges/BRIDGES9-5.pdf (visited 18/05/2007). This paper is in part based on the author's comprehensive analysis in light of the *US – Gambling* dispute; see H Grosse Ruse – Khan, *A Pirate of the Caribbean? The Attractions of Suspending TRIPS Obligations* (2) 11 JIEL (2008, forthcoming).

[3] E.g. non-tariff related obligations under the General Agreement on Tariffs and Trade (GATT), other agreements on trade in goods (such as the Antidumping Agreement, the Subsidies and Countervailing Measures Agreement or the Agreement on Agriculture); obligations under the General Agreement on Trade in Services (GATS) or under TRIPS.

[4] The relevant conditions can be found in Art.22.3 (a)-(d) DSU; see discussion below.

[5] See especially the limitations of the three step test in Art.13 TRIPS as well as those of the Appendix to the Revised Berne Convention on the protection of literary and artistic works which is binding upon all WTO Members by virtue of Art.9 (1) TRIPS. Its mechanism for improving access to knowledge has been a complete failure; see H Grosse Ruse – Khan, *Access to Knowledge under the International Copyright Regime, the WIPO Development Agenda and the European Communities' new External Trade and IP Policy*, in E Derclaye (Ed), *Research Handbook on the Future of EU Copyright* (Edward Elgar Publishing, forthcoming 2008).

[6] Similar to some pharmaceutical companies threatening market withdrawal because of compulsory licensing in Thailand and Brazil, one could counter that IP dependent industries might decide not to operate in a particular market if that country is likely to use IP suspension as a tool for trade retaliation which then might prevent innovative new products to enter national markets. However, whether this scenario is realistic and, if so, outweighs the benefits of IP cross-retaliation for the domestic economy of the retaliating country remains to be seen. Overall, the decision to withdraw from a national market will be influenced by a variety of factors amongst which the potential for (temporary) IP suspension very likely will play a less important role than broader economic parameters such as market size, competition, consumer demand and buying power.

[7] Art.22.3 (c) DSU

[8] Art.22.4 DSU – the relevant WTO case law has generally adopted an 'equality of harms' comparison.

[9] *EC-Bananas III (Ecuador)* and *US - Gambling*, both as note 2 above.

[10] *EC – Bananas III*, as note 2 above, at para.59, 60 and *US – Gambling*, as note 2 above, at para.2.27.

[11] *EC – Bananas III*, as note 2 above, at para.70.

[12] *Ibid*, at para.88-96.

[13] *US – Cotton*, as note 1 above, at para.2.

[14] *US – Gambling*, as note 1 above, at para.2.

[15] *EC – Bananas III*, as note 2 above, at para.100.

[16] See *US – Gambling*, as note 2 above, at, paras.4.29, 4.84 and 4.56 & 4.60, 4.65 (where the absence of any trade in the sector affected seemed to be decisive) as well as paras.4.98-4.99 (where various aspects of harm to Antigua's domestic economy seemed crucial – which would speak for an application of the practicality criterion).

[17] *EC – Bananas III*, as note 2 above, at para.72, *US – Gambling*, as note 2 above, at para.4.84.

[18] *US – Cotton*, as note 1 above, at para.2; *US – Gambling*, as note 1 above, at para.3.

[19] *US – Gambling*, as note 2 above, at para.4.93-4.94 & 4.98-4.99.

[20] *EC – Bananas III*, as note 2 above, at para.82-86 - compare also Art.22.3 (d) DSU.

[21] *Ibid*, at para.128-133.

[22] *US – Gambling*, as note 1 above, at 3.

[23] *US – Gambling* (Art.22:6), as note 2 above, at para.4.110-4.111.

[24] *Ibid*, para.4.35-4.37, 4.107 & 4.114-4.116.

[25] *EC-Bananas III*, as note 2 above, at para.173-174.

[26] See *Communication of India, on behalf of Cuba, Dominican Republic, Egypt, Honduras, Jamaica and Malaysia* (TN/DS/W/47), 11/02/2003

[27] Such as the Revised Berne Convention on the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property or the WIPO Copyright Treaty.

[28] 'Responsibility of States for Internationally Wrongful Acts' adopted by the International Law Commission (ILC) in its 53rd Session on 21st August 2001 (Report of the International Law Commission, Fifty-third Session, A/56/10, Chapter IV) - hereafter referred to as the ASR.

[29] The EC – CARIFORUM EPA has been politically agreed in December 2007 but is yet to be signed. Under the most-favored-nation (MFN) provision in Art.4 TRIPS, all other WTO Members will benefit from the additional protection it confers beyond TRIPS.

[30] Unless higher economic losses imposed on the right holder are still within the range of equality of harms, suspending TRIPS plus can lead to a conflict with the proportionality test under Art.51 of the ASR.

[31] Under Art.50 (2) a), Art.52 (3) b) and Art.55 ASR this may be the case especially if the initial WTO inconsistent measure giving rise to retaliation is equally a violation of the FTA.

[32] See A Subramanian & J Watal, as note 2 above, at 408 (referring to T Cottier, *Intellectual Property in International Trade Law and Policy: The GATT connection* (Aussenwirtschaft, 1992), at 103-105).

[33] This follows from the principle of territoriality in IP law under which protection results not from international agreements such as TRIPS but from national laws implementing these agreements. The existence and scope of protection therefore depends on the domestic law and is always limited to the domestic territory.

[34] For example because the right holder did not apply for a patent or a trademark or because the country is still benefiting from the extended transition periods for LDCs with regard to pharmaceutical product patents.

[35] Under this doctrine, a first sale or other form of authorized distribution of a product in one country legalizes the resale in another country – even if the product is generally under IP protection in the latter country. Art.6 TRIPS, as confirmed by para.5 (d) of the Doha Declaration on TRIPS and Public Health, reiterates that domestic policies on (international) exhaustion cannot be challenged under the WTO dispute settlement system.

[36] The retaliating country however should keep in mind that the economic value of these exports certainly has to be taken into account when measuring equivalence under Art.22:4 DSU.

[37] See para.5 (d) of the Doha Declaration on TRIPS and Public Health. Art.6 TRIPS states: "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."

[38] See C Correa, *Trade Related Aspects of Intellectual Property Rights* (Oxford, 2007), 84-85, 440-441

[39] Such a dispute over the scope of the term exhaustion in Art.6 TRIPS could be argued as not falling under the the broad Article 6 language that nothing in the TRIPS Agreement shall be interpreted as addressing exhaustion.

[40] The legality of such a 'joint IP suspension' strategy however depends on, among other factors, the fulfilment of the Art.22.3 (c) and 22.4 DSU conditions by each individual complainant. Also the existence and scope of other bi- or multilateral obligations to protect IP must be taken into account individually (see below).

[41] See also *A Subramanian & J Watal*, as note 2 above, at 409

[42] See also para.5 (d) of the Doha Declaration on TRIPS and Public Health, as note 170 above, which explicitly confirms this freedom. Compare also *C Correa* (as note 38 above, at 86-87) who argues for an application of the exhaustion principle well beyond sales authorized by the right holder to any situation where the product has been lawfully placed on the market. This issue is further discussed below in relation to the potential role international exhaustion can have to extend the impact of IP suspension.

[43] Such mechanisms may include issuing compulsory licenses; limiting the eligibility for protection; suspending further grants of IP rights; early termination of protection or suspending IP enforcement. Further research is needed to examine all these options in detail. For an initial assessment see *A Subramanian & J Watal*, as note 2 above, at 411-415.

[44] Whether Antigua has any option to cross-retaliate however depends on other recent developments outside the Gambling dispute. If the US succeeds with its plans to modify, under Art.XXI GATS, the very commitments which it has been found to violate, Antigua will arguably have no case anymore and consequently is likely to loose its option to suspend IP protection. Although Antigua retains a right under Art.XXI GATS to request compensatory adjustment from the US which again could be enforced via retaliation, this form of retaliation under Art.XXI:4 (b) GATS is arguably limited to GATS commitments and does not allow it to suspend TRIPS obligations.

[45] Speech of King Hassan II of Morocco for the host government of the April 1994 Marrakech Ministerial Meeting to conclude the Uruguay Round and establish the WTO; quoted in J Jackson, *Designing and Implementing Effective Dispute Settlement Procedures: WTO Dispute Settlement, Appraisal and Prospects*, in A Krueger (Ed) *The WTO as an International Organization*, (Chicago, 2000), at 168 (footnote 7).

[46] R Lawrence, *The United States and the WTO Dispute Settlement System, Council of Foreign Relations Special Report No.25* (March 2007) – online available at www.cfr.org (visited on 22 November 2007), at 15.

Annex 1
Article 22 of the WTO Dispute Settlement Understanding

Article 22

Compensation and the Suspension of Concessions

1. Compensation and the suspension of concessions or other obligations are temporary measures available in the event that the recommendations and rulings are not implemented within a reasonable period of time. However, neither compensation nor the suspension of concessions or other obligations is preferred to full implementation of a recommendation to bring a measure into conformity with the covered agreements. Compensation is voluntary and, if granted, shall be consistent with the covered agreements.

2. If the Member concerned fails to bring the measure found to be inconsistent with a covered agreement into compliance therewith or otherwise comply with the recommendations and rulings within the reasonable period of time determined pursuant to paragraph 3 of Article 21, such Member shall, if so requested, and no later than the expiry of the reasonable period of time, enter into negotiations with any party having invoked the dispute settlement procedures, with a view to developing mutually acceptable compensation. If no satisfactory compensation has been agreed within 20 days after the date of expiry of the reasonable period of time, any party having invoked the dispute settlement procedures may request authorization from the DSB to suspend the application to the Member concerned of concessions or other obligations under the covered agreements.

3. In considering what concessions or other obligations to suspend, the complaining party shall apply the following principles and procedures:

(a) the general principle is that the complaining party should first seek to suspend concessions or other obligations with respect to the same sector(s) as that in which the panel or Appellate Body has found a violation or other nullification or impairment;

(b) if that party considers that it is not practicable or effective to suspend concessions or other obligations with respect to the same sector(s), it may seek to suspend concessions or other obligations in other sectors under the same agreement;

(c) if that party considers that it is not practicable or effective to suspend concessions or other obligations with respect to other sectors under the same agreement, and that the circumstances are serious enough, it may seek to suspend concessions or other obligations under another covered agreement;

(d) in applying the above principles, that party shall take into account:

(i) the trade in the sector or under the agreement under which the panel or Appellate Body has found a violation or other nullification or impairment, and the importance of such trade to that party;

(ii) the broader economic elements related to the nullification or impairment and the broader economic consequences of the suspension of concessions or other obligations;

(e) if that party decides to request authorization to suspend concessions or other obligations pursuant to subparagraphs (b) or (c), it shall state the reasons therefor in its request. At the same time as the request is forwarded to the DSB, it also shall be forwarded to the relevant Councils and also, in the case of a request pursuant to subparagraph (b), the relevant sectoral bodies;

(f) for purposes of this paragraph, "sector" means:

(i) with respect to goods, all goods;

(ii) with respect to services, a principal sector as identified in the current "Services Sectoral Classification List" which identifies such sectors;[1]

(iii) with respect to trade-related intellectual property rights, each of the categories of intellectual property rights covered in Section 1, or Section 2, or Section 3, or Section 4, or Section 5, or Section 6, or Section 7 of Part II, or the obligations under Part III, or Part IV of the Agreement on TRIPS;

(g) for purposes of this paragraph, "agreement" means:

(i) with respect to goods, the agreements listed in Annex 1A of the WTO Agreement, taken as a whole as well as the Plurilateral Trade Agreements in so far as the relevant parties to the dispute are parties to these agreements;

(ii) with respect to services, the GATS;

(iii) with respect to intellectual property rights, the Agreement on TRIPS.

4. The level of the suspension of concessions or other obligations authorized by the DSB shall be equivalent to the level of the nullification or impairment.

5. The DSB shall not authorize suspension of concessions or other obligations if a covered agreement prohibits such suspension.

6. When the situation described in paragraph 2 occurs, the DSB, upon request, shall grant authorization to suspend concessions or other obligations within 30 days of the expiry of the reasonable period of time unless the DSB decides by consensus to reject the request. However, if the Member concerned objects to the level of suspension proposed, or claims that the principles and procedures set forth in paragraph 3 have not been followed where a complaining party has requested authorization to suspend concessions or other obligations pursuant to paragraph 3(b) or (c), the matter shall be referred to arbitration. Such arbitration shall be carried out by the original panel, if members are available, or by an arbitrator[2] appointed by the Director-General and shall be completed within 60 days after the date of expiry of the reasonable period of time. Concessions or other obligations shall not be suspended during the course of the arbitration.

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[1] The list in document MTN.GNS/W/120 identifies eleven sectors.
[2] The expression"arbitrator" shall be interpreted as referring either to an individual or a group.

7. The arbitrator[3] acting pursuant to paragraph 6 shall not examine the nature of the concessions or other obligations to be suspended but shall determine whether the level of such suspension is equivalent to the level of nullification or impairment. The arbitrator may also determine if the proposed suspension of concessions or other obligations is allowed under the covered agreement. However, if the matter referred to arbitration includes a claim that the principles and procedures set forth in paragraph 3 have not been followed, the arbitrator shall examine that claim. In the event the arbitrator determines that those principles and procedures have not been followed, the complaining party shall apply them consistent with paragraph 3. The parties shall accept the arbitrator's decision as final and the parties concerned shall not seek a second arbitration. The DSB shall be informed promptly of the decision of the arbitrator and shall upon request, grant authorization to suspend concessions or other obligations where the request is consistent with the decision of the arbitrator, unless the DSB decides by consensus to reject the request.

8. The suspension of concessions or other obligations shall be temporary and shall only be applied until such time as the measure found to be inconsistent with a covered agreement has been removed, or the Member that must implement recommendations or rulings provides a solution to the nullification or impairment of benefits, or a mutually satisfactory solution is reached. In accordance with paragraph 6 of Article 21, the DSB shall continue to keep under surveillance the implementation of adopted recommendations or rulings, including those cases where compensation has been provided or concessions or other obligations have been suspended but the recommendations to bring a measure into conformity with the covered agreements have not been implemented.

9. The dispute settlement provisions of the covered agreements may be invoked in respect of measures affecting their observance taken by regional or local governments or authorities within the territory of a Member. When the DSB has ruled that a provision of a covered agreement has not been observed, the responsible Member shall take such reasonable measures as may be available to it to ensure its observance. The provisions of the covered agreements and this Understanding relating to compensation and suspension of concessions or other obligations apply in cases where it has not been possible to secure such observance.[4]

[3] The expression "arbitrator" shall be interpreted as referring either to an individual or a group or to the members of the original panel when serving in the capacity of arbitrator.

[4] Where the provisions of any covered agreement concerning measures taken by regional or local governments or authorities within the territory of a Member contain provisions different from the provisions of this paragraph, the provisions of such covered agreement shall prevail.

For Further Discussion on the Topics Addressed Herein,
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