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**SUSPENDING IP OBLIGATIONS
UNDER TRIPS:
A VIABLE ALTERNATIVE TO
ENFORCE PREVAILING WTO
RULINGS?**

*Dr Henning Grosse Ruse - Khan
Max Planck Institute for Intellectual Property,
Competition and Tax Law, Munich*

Placing the Topic in WTO Context

- **Rule Based System of Dispute Settlement** as key achievement of Uruguay Round
- DSU establishes obligation to remove inconsistencies with WTO Law and to comply with DSB rulings (Art.3.7, 19.1, 21.1, 22.1 DSU)
- Generally, DSU is perceived to have 'teeth' – to be able to secure compliance (e.g. IP being brought into WTO mainly to secure enforceability)

Placing the Topic in WTO Context

How does the DSU ensure compliance?

- Generally, DSU builds on a system where as last resort the affected Member has the **right to retaliate against the non-complying Member**
 - But: *“in essence, sanctions, just like compliance, must come from sovereign actions of the WTO’s Members.”* (Rufus Yerxa, Dep DG of WTO)
- Do DSU rules offer **equal chances** for all to enforce WTO compliance? ... Given the power and trade asymmetries, does retaliation by **suspending TRIPS** offer a chance for small DCs?

Outline

- **Rationale** for Suspending TRIPS: The **US** – ***Gambling Dispute*** as case study
- **Conditions** for Suspending IP Obligations under **DSU Rules**
- **Conflicts** with International Agreements
- **Economic feasibility** of Suspending Obligations under TRIPS
- **Conclusions**

The *US – Gambling* Dispute

- Panels and AB found US measures effectively prohibiting **cross border supply of gambling services** from Antigua inconsistent with US commitments under its GATS schedule
- While US could justify this by relying on the **public morals exception in Art.XIV:a GATS**, the AB was not convinced that US applied its measures in a non-discriminatory way
- **US continues not to comply** with the DSB ruling, confirmed by a Art.21.5 Panel in March 2007

The *US – Gambling* Dispute

- In June 2007, **Antigua** requested authorisation to **retaliate by suspending TRIPS** obligations
- As the US objected against the level and type of retaliation (Art.22.3&4 DSU), the matter was referred to **arbitration under Art.22.6 DSU**
- On 21 December 2007, the arbitrators granted Antigua the right to request authorisation to **suspend protection of various IP rights under TRIPS at a level of US\$21 million annually** (Antigua had asked for US\$ 3.443 billion - the US had argued for US\$ 500,000)

The *US – Gambling* Dispute

US move to modify its GATS commitments

- In May 2007, the US announced its intention to modify its commitments relating to gambling services under **Art.XXI GATS** procedures

→ Instead of complying with its Int. obligations, the **US is modifying these WTO obligations to bring them in compliance with its national laws** – as an alternative way to resolve the ongoing *US – Gambling* Dispute

- 8 WTO Members (incl. EC, Canada, India, Japan, Australia) filed requests for **compensation**

The *US – Gambling* Dispute

- While US reported agreement with EC, Japan and Canada, on 28 January 2008, **Antigua and Costa Rica filed arbitration requests** under Art.XXI:3 a) GATS
- para.13 S/L/80: arbitration focuses on **compensatory adjustments** and aims to maintain an equivalent level of mutually advantageous commitments
- If US does not comply with arbitrator's findings, the requesting Members can **withdraw substantially equivalent (GATS) commitments**

The *US – Gambling* Dispute

Impact on *US – Gambling* Dispute

- As soon as US has validly withdrawn its commitments on cross-border gambling services, it has removed its violation of WTO obligations
- Antigua thus cannot rely on the DSB rulings anymore and may not retaliate to induce compliance
→ *“you loose the game, so you change the rules”*
- However, unless the Art.XXI GATS procedures are completed, Antigua can pursue retaliation under Art.22 DSU (no ‘sequencing’ analogy) since the original commitments remain valid

Rationale for IP Suspension

1) Inadequacy of Traditional Retaliation

- Antigua has negligible natural resources, needs to import to supply consumers and businesses
 - Imports: 50% from US = 0.02% of US exports
 - Higher tariffs on US exports lead to higher domestic prices but has no impact on US exports
- **Asymmetry in market size** often makes suspending tariff concessions ineffective
- Traditional retaliation favours large economies
- No equal option to enforce WTO obligations

Rationale for IP Suspension

2) Ratio for Retaliating under TRIPS

- **IP protection under TRIPS crucial** for most industrialised countries (e.g. software-, music-, entertainment-, pharma-industry, brand names)
- **Suspending TRIPS** likely to **inflict significant harm** on these countries' key industries – thus creating an incentive to comply
- Further potential **welfare effects** for the retaliating Member (technology transfer, boosting nat. industry, access to drugs): general ability to **tailor IP protection to domestic needs!**

Requirements under the DSU

Overview on Retaliation under the DSU:

- Unless agreement on **compensation**, “suspension of concessions or other obligations” as the **last resort** to remove WTO inconsistency, Art.22
- general principle that the retaliating Member should first retaliate in **same sector / same agreement** of WTO inconsistency, Art.22.3 (a)
- Retaliating country must ensure **equivalence** between the level of obligations suspended and the level of nullification or impairment of benefits, Art.22:4
- **Arbitration** to test consistency with Art.22.3, 22.4

Requirements under the DSU

Cross-Retaliation under Art.22.3 requires:

- Retaliating in the same sector/agreement must be **not practicable** (= negative effect on own economy) **or not effective** (= no real impact on non-complying country);
 - **Circumstances** must be „**serious enough**“:
Importance of affected trade sector and impact of non-compliance on that sector & on the economy
- All small economies, when strongly affected by WTO violations, can meet these conditions

Requirements under the DSU

In Practice, this means:

- Effectively, the retaliating country must assess all sectors of each and every agreement where the non-complying 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 and further provide information relevant for determining 'seriousness'

Requirements under the DSU

What if same sector suspension is *partly* effective and practical?

- *EC – Bananas III*: 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 equalise the level of harm suffered** by the non-complying country.

Requirements under the DSU

In Conclusion: *DSU requirements do not impose significant constraints on a developing country's ability to suspend TRIPS obligations.*

- **IP cross-retaliation is justified** if retaliation through the raising of tariffs (or imposing other same sector / same agreement restrictions):
1. leads to a **price increase** (or similar form of harm) in the domestic market of the retaliating country; **or**
 2. has an **insignificant impact** on the non-complying country; **and**
 3. **trade in the sectors affected** by non-compliance is of **high importance** for the retaliating country.

Conflicts with International Agreements

- Compliance with the DSU is however unlikely to be sufficient – as **suspending IP protection can conflict with distinct international obligations to protect IP:**
- Potential conflicts may arise from:
 - The **incorporation** of key substantive provisions on IP protection **of the RBC, PC (etc.) into TRIPS**
 - Several **Multilateral Agreements on IP protection** outside the WTO **with overlapping or additional obligations** (such as the WCT, WPPT, UPOV)
 - Bilateral **FTAs with TRIPS-plus obligations** (which must be extended to all WTO Members under MFN)

Conflicts with International Agreements

Ways to achieve **coherence**?

- **No conflict** with obligations under PC, RBC **incorporated into** TRIPS: Art.2 (2) TRIPS (-) as its obligation does not extend to dispute settlement (Part V TRIPS); see *EC-Bananas III*
- **Conflict** with **Independent obligations** deriving from multilateral IP Agreements – resolved by:
 - **Art.30 VC** (-) as TRIPS is no ‘successive treaty’ to other int. IP Agreements; does not address (hierarchy of) *suspending* obligations
 - **Art.60 VC** (-) as it only authorises suspending obligations relating to the treaty that has been breached

Conflicts with International Agreements

- Can Conflicts be resolved under the Counter-measures doctrine (Art.49-55)?
- *Applicability of & no lex specialis to the ASR?*
 - Is the addressee of IP suspension the non-complying *state* (since IP protection grants *private rights to private entities*), Art.49 (1)?C
 - Countermeasures must be *proportional*, Art.51
 - *Need to exhaust* remedies under the relevant Int. IP Agreement?

Conflicts with International Agreements

IP obligations under bilateral **FTAs**:

- If bound to '**TRIPS-plus**' FTAs, suspending TRIPS does not make any sense...
- Again **potential justification** of extending the TRIPS suspension to FTA obligations only under the counter-measures (**reprisal**) doctrine:
 - **Direct Effect** of FTA protection for right holders?
 - Need to exhaust **FTA dispute settlement remedies** in case initial breach also a violation of the FTA?
 - In cases of TRIPS-plus rights, equivalence test (Art.22.4 DSU) does not guarantee **proportionality**

Economic Feasibility

Domestic Market Size

- **Territoriality** of IP protection: The existence and scope of IP protection depends on the domestic law; is in general limited to the domestic territory
- Suspension equally limited: Only justifies *unauthorised domestic use*
- **Generally no exports** of goods produced under IP suspension (see also Art.51 TRIPS);
- Also in case of IP suspension economic impact depends generally on **sufficient size of domestic market and consumer demand**

Economic Feasibility

Options to extend Economic Impact beyond Domestic Market

Exports of goods produced under Suspension:

- If no IP protection applies in Importing Country
- If Importing country considers production under IP suspension as **international exhaustion?**
(see Art.6; Art.51 & fn.13; TRIPS)
- In cases of multiple complainants which adopt a **joint enforcement strategy** to trade goods produced under suspension

Economic Feasibility

The idea to achieve Global Economic Impact via the **Internet**:

- Could a WTO Member suspend protection for copyrighted movies/music; then offered online?
 - Difficulty of ensuring equivalence, Art.22.4: How to determine the economic value of a download?
 - Would the country be held liable for further acts of exploitation by the users around the world?
 - Must it rely on TPMs or DRMs to avoid further copying/distribution of the copyrighted material?

Economic Feasibility

Further Determining Factors:

- **Technological Capability:** Often lack of domestic production facilities for high-tech goods in DCs – imports only from countries with no IPR grant
- (Private) Producers need **certainty/security** in order to invest in production... But retaliation has to end as soon as non-compliance ends...
- Not only ability to induce compliance, but also **Welfare effects** equally dependent on technological capacity & willingness of local producers

Implementing IP Cross-retaliation

General remarks:

- Need to **modify nat. IP laws** to allow for suspension mechanism
- Suspension should be subject to **discretion**
- Need to ensure that only **nationals** (Art.1 (3) TRIPS) of the non-complying state are targeted
- Awareness that products/services are often covered by several distinct layers of IP protection
- Difficulty to ensure '**equivalence of harms**'

Implementing IP Cross-retaliation

Specific implementation mechanisms:

- Limiting the *eligibility* (qualification) for protection
 - Suspending *further grants* of IP rights
 - *Compulsory Licensing*
 - *Early termination* of protection
 - Suspending *IP Enforcement*
 - Freezing *Royalties?*
- Necessary **control over the retaliation** (→ equivalence, Art.22.4 DSU) only if **state authorities** aim to **take over the right holders' position** as much as possible...

Conclusions

→ Suspension of IP protection under TRIPS can induce compliance if:

- The **domestic market** is important enough for right holders (& **local production** facilities exist) or options for to extend economic impact are legally utilised;
- the retaliating state has **assessed and denied practicality** or **effectiveness** of suspending same sector/same agreement obligations;
- Conflicts with international/bilateral obligations are solved on the basis of **counter-measure doctrine**; and
- National law provides for a **functioning implementation mechanism** which ensures equivalence of harms

Thank you for your attention

Suggestions, critique and remarks to

henning.gr-khan@ip.mpg.de