IP Protection and Enforcement – A Barrier to ‘Legitimate Trade’?
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IP Protection and Enforcement – a Barrier to ‘Legitimate Trade’?

Introduction: IP Enforcement – Creating or Abolishing Trade Barriers?

The Example of Seizing Generics in Transit

International IP Law: The Ambiguous Prohibitions to Create Barriers to ‘Legitimate Trade’

Preliminary Conclusions
Introduction: IPRs Creating Trade Barriers?

Distinct Views on IP Enforcement & Trade

1) IP Exporting Countries:
   • Increasing trade in ‘counterfeits’ and fake goods destroys markets for the originals and deceives consumers;
   • lack of adequate IP enforcement in markets abroad is key obstacle to international trade in IP protected goods
   → Enforcement initiatives (e.g. ACTA) as a remedy to restore fair global competition and facilitate trade in ‘legitimate’ goods

2) Developing Countries, esp. Emerging Economies:
   • As goods from emerging economies are becoming increasingly competitive with those of developed country producers, new international IP enforcement rules are viewed as ‘non-tariff barriers to trade’ for exports from developing countries
   → ACTA as ‘protectionist’; its trade restrictive effects contrary to the main principle of trade liberalization in the WTO
Seizures of Generics in Transit

Shipments of generic drugs from India to Brazil and other countries were seized in transit in the EU on the basis of alleged patent infringements in the transit country.
Further Examples of Trade Barriers…

• **India**: Cases of registering patents of questionable quality with custom authorities in order to prevent the importation of competing products allegedly infringing the patent:
  • Ramkumar attempting to prevent importation of mobile phones from e.g. Samsung claiming patents on dual-SIM phones…
  • Patents on well-known laser technologies used to prevent competing imports; initiate criminal investigation against importer (as importing of ‘prohibited goods’ is a criminal offence under the Customs Act, 1962)

• **China**: IP consultant of a leading US Software company complains about new business strategies in China which entail:
  • Applying for a patent for products where novelty, inventiveness are highly questionable
  • Registering these patents with Chinese Customs to prevent the importation of competing products from abroad…
The ambiguous Relationship between IP and Trade in International Law

→ How does international law deal with the relationship between IP and trade, in particular the question whether IP protection and enforcement constitutes a prohibited barrier to international trade?

→ As the most important multilateral organisation dealing with both trade and IP, the WTO foresees in the TRIPS Agreement an ambiguous prohibition to create barriers to ‘legitimate trade’…
Int. IP Rules on Barriers to ‘Legitimate Trade’

Art.41:1 TRIPS

“Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.”
Int. IP Rules on Barriers to ‘Legitimate Trade’

Beyond Art.41: A Motive for concluding TRIPS? 

**TRIPS Preamble, 1st Paragraph:**

“Members,

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”;
Int. IP Rules on Barriers to ‘Legitimate Trade’

Historically: The Uruguay Round IP Mandate as Origin

“In order 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 negotiations shall aim to clarify GATT provisions and elaborate as appropriate new rules and disciplines.”

Ministerial Declaration on the Uruguay Round of Trade Negotiations, Punta Del Este (20 September 1986)
Int. IP Rules on Barriers to ‘Legitimate Trade’

Current Developments: Transplantation into ACTA

“Desiring to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade” (Preamble)

Each Party shall ensure that enforcement procedures are available under its law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse. (Article 6:1)
The Notion of ‘Legitimate Trade’

How to apply/interpret the term ‘legitimate trade’?

The EU has seized generics in transit from India to Brazil based on alleged patent infringements in the EU transit country. Under Art.41:1 TRIPS, IP enforcement procedures “shall be applied in such a manner as to avoid the creation of barriers to legitimate trade” … → A violation of Art.41:1?

given The term ‘shall’ indicates a treaty obligation which the EU must comply with
→ Arguably, such seizures are ‘barriers’ to international trade

1) But are the generics in transit ‘legitimate trade’?
2) Whose countries’ perspective is decisive – who decides?
1) What is Legitimate Trade?

Historic Interpretation

→ The negotiation history suggests that the preambular TRIPS language on ‘legitimate trade’ stems from a 1987 US proposal:
  • The TRIPS objective should be to “reduce distortions of and impediments to legitimate trade in goods and services caused by deficient levels of protection and enforcement of intellectual property rights”; inter alia by
  • Ensuring “that such measures to protect intellectual property rights do not create barriers to legitimate trade”

→ The 1990 Anell Draft builds on this language – but with two alternatives: ‘international trade’ (EC); ‘legitimate trade’ (US)

→ Drafters aimed to distinguish between trade in infringing goods and non-infringing (= legitimate) trade!
1) What is Legitimate Trade?

Art.3:2 DSU: ‘customary rules of interpretation’

→ Art.31:1 VCLT: “A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.”

→ The key elements therefore are:
  • **Ordinary Meaning**: ‘lawfulness from a legal positivist perspective’ or ‘justifiable’ from a ‘normative perspective’ (US – Copyright, Canada – Patents)
  • **Context**: Art.V GATT (*Freedom of Transit*), Art.XX d) (General Exception)
  • **Object and Purpose**: Art.7, 8 TRIPS

→ Is trade in generics not always legitimate because of its public health objective?
2) Who decides?

→ In determining ‘legitimacy’, **whose countries’ perspective is decisive?**

- In the WTO context, the ‘**legitimate trade**’ Art.41:1 TRIPS regulates **is international** and affects 2 or more jurisdictions.
- Both a normative and a legalistic interpretation depend on **which countries’ perspective is adopted** to judge ‘legitimacy’… So who decides?
- An **independent, international view** is difficult as there are no global IP rights
- A solution may be to **focus on countries which have a significant territorial link to the trade**…

→ For goods in **transit**, only a threat of trade diversion justifies application of domestic views/laws of the transit country
(Preliminary) Conclusions

→ The role of IP protection and enforcement for international trade is ambiguous and depends on the (countries’) perspective adopted

→ Especially border measures can be abused to prevent international transit and the entry of competing goods onto the domestic market

→ The prohibition to create barriers to legitimate trade needs clarification as to what is legitimate and who decides

→ For goods in transit, only a plausible threat of trade diversion justifies to take the domestic views/laws of the transit country into account
Thank you for your attention!

For a more detailed paper on transit seizures, ACTA and trade barriers, see
http://ssrn.com/abstract=1706567

Comments and critique to
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