Suspension of Obligations under TRIPS as an Effective Means to Induce Compliance?

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1) Introduction

According to Art.3.7 of the Dispute Settlement Understanding (DSU), the central aim of the dispute settlement mechanism in the WTO is to “secure a positive solution to the dispute” – if possible in form of a mutually acceptable solution which is equally consistent with the WTO Agreements. Art.3.7 DSU goes on and states that in the absence of a solution mutually accepted by the parties, “the first objective of the dispute settlement mechanism is usually to secure the withdrawal of the measures concerned if they are found to be inconsistent with the provisions of the covered agreements”. In case the WTO Member concerned is unable or unwilling to withdraw the measure and further compensation cannot be mutually agreed, the DSU foresees as the last resort the option of (temporarily) suspending the application of concessions or other obligations under the WTO Agreements against the non-complying Member.

This paper examines a particular aspect of the possibility to suspend obligations under WTO Agreements in cases of non-compliance: To what extent is it both economically feasible and legal under the provisions of the DSU, other potentially relevant international agreements and domestic law to suspend obligations under the Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS)? Suspending TRIPS obligations\(^1\) has been argued to be of particular interest for smaller economies and developing countries to induce compliance\(^2\) with recommendations of the Dispute Settlement Body (DSB) in disputes against (developed) countries with significantly greater economic size and power in international trade.\(^3\) The idea has recently gained momentum by Brazil’s request\(^4\) for suspending various obligations under TRIPS in the US – Cotton\(^5\) case.\(^6\) Given the current rather gloomy outlook on a successful completion of the Doha Round and the related predictions for a “wave of litigation”\(^6\) especially aimed at farm subsidies in key economies, IP cross retaliation could serve as an ideal enforcement tool in these disputes.

\(^1\) In this article, I will refer to suspending obligations under the TRIPS Agreement as Intellectual Property (IP) cross retaliation since the scenario at stake usually involves non-compliance with obligations regarding trade in goods or even services.

\(^2\) It is acknowledged that there is a debate about the aim of and ratio behind the suspension of WTO obligations: Is it the restoration of the reciprocal balance of benefits between the disputants (i.e. ‘rebalancing’) or is it facilitating the implementation of recommendations of the Dispute Settlement Body? See Y Fukunaga, Securing compliance through the WTO dispute settlement system, JIEL Vol.9 No.2 (2006), at 416-417. For the purpose of added value of cross-retaliating by suspending TRIPS obligations, this paper mainly follows the arbitrators’ argumentation in the EC-Bananas III (Ecuador) case which saw the main purpose in inducing compliance; see WT/DS27/ARB/ECU para.72 & 76.

\(^3\) See in particular A Subramanian & J Watal, Can TRIPS Serve as an Enforcement Device for Developing Countries in the WTO? JIEL (2000), 403-416; the idea was 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 – online available at http://www.ictsd.org/monthly/bridges/BRIDGES9-5.pdf (visited 18/05/2007)

\(^4\) See United States – Subsidies on Upland Cotton, Recourse to Art.7.9 SCM and Art.22.2 DSU by Brazil (WTDS267/26), 07/10/2005.

\(^5\) On 17/10/2005, the US objected to the level of suspension proposed by Brazil and claimed that the principles set forth in Art.22.3 DSU have not been followed. It therefore requested for the matter to be referred to arbitration in accordance with Art.22.6 DSU (see WT/DS267/27). On 07/12/2005, the arbitrators suspended – in accordance with a joint request from Brazil and the US – the Art.22.6 arbitration proceedings subject to a request for resumption (see WT/DS267/29). Since Brazil did not consider measures taken by the US to comply with the recommendations of the DSB in the US – Cotton case (see WT/DS267/AB/R) as a consistent implementation of the Appellate Body report, it requested in August 2006 the establishment of an Art.21.5 DSU panel (see WT/DS267/30). While – according to the officially available sources – the Art.21.5 DSU implementation panel report is due sometime in July 2007 (see WT/DS267/32), the Art.22.6 arbitration proceedings remain suspended as to date and will most likely not be resumed before the adoption of the Art.21.5 report.

\(^6\) See Bridges Weekly Trade News Digest, “With Negotiations Frozen, Potential WTO Disputes Looming” Vol.10 No.28 (2 August 2006)
At the same time, the rather scarce writings on this topic and in particular the so far only precedent for an authorisation to suspend TRIPS obligations in the history of dispute settlement in the WTO, the EC-Bananas III (Ecuador) arbitration, indicate several associated problems which will be addressed in this paper. It starts by laying out the basic rationale for suspending obligations to protect Intellectual Property (IP) and then examines the economic feasibility of such action in particular for smaller economies and developing countries with the aim bringing a non-complying WTO Member in compliance. The paper further analyses the conditions for cross-retaliation under Art.22.3 DSU, the potential conflicts with other international agreements on the protection of IP as well as human rights and considers the options available under domestic IP statutes to foresee a regime which implements an authorisation of the DSB to suspend obligations under TRIPS. It ends with conclusions on the overall feasibility and effectiveness of suspending IP protection as a tool to induce compliance.

2) Ratio: Why use the Suspension of TRIPS Obligations as Compliance Mechanism?

The idea of cross-retaliating by suspending IP protection under a possible future regime on IP within the GATT was briefly mentioned by Thomas Cottier in 1991 who argued that the possibility of withdrawing concessions in the IPR field considerably increases the negotiating power of LDCs in trade disputes related to goods or services. He further indicated that during the Uruguay Round, the willingness of developing countries to accept an IP regime under GATT and especially to extend its dispute settlement system to such a regime was influenced by proposals to include specific provisions which would allow for sanctions also in the field of IPRs. However, the 26/11/1990 Draft for a TRIPS Agreement, in its Annex 1 on Dispute Settlement (Text I at 2. (d)) only foresaw the opposite scenario: An option to cross-retaliate by suspending GATT concessions in case of disputes concerning the violation of obligations under TRIPS while not mentioning possibilities for cross-retaliating against e.g. GATT violations by suspending obligations to protect IP rights.

The main rationale for suspending TRIPS obligations can be explained by using the current scenario in US-Gambling case (WT/DS285) as an example. If for example the US would be in continuous violation of WTO rules on trade in services by preventing online access to internet gambling websites hosted in Antigua, under the general rule of Art.22.3 (a) DSU Antigua could request the authorisation to suspend concessions or obligations in the same sector of the same agreement, i.e. relating to US services in the same principal sector. But what if Antigua is such a small and rather irrelevant market for US services, that such suspension does have no real impact on US service providers and thus is ineffective in facilitating compliance of the US with the DSB recommendations? Above this, such retaliation may rather hurt the Antiguan economy or society at large which may depend on the availability of US services. Given the importance of IP protection for most companies in industrialised countries, suspending IP protection obligations under the TRIPS agreement however may serve as a much more effective tool to bring these countries into compliance with DSB recommendations. Under the DSU, this type of cross-retaliation is possible if the requirements of Art.22.3 (c) & (d) DSU are met, so that one might view suspension of TRIPS obligations as

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8 Ibid, at 394
9 Part of the Draft Final Act Embodying the Results of the Uruguay Round of Trade Negotiations (see MTN.TNC/W/35/Rev.1), at 229-230
10 Arguably, suspension of GATS obligation would equally not restore the reciprocal balance of benefits so that even under the rebalancing paradigm retaliation would not meet its aims.
the prefect “retaliatory weapon in trade disputes”\textsuperscript{11} for developing countries and small economies. Whether this is the case, shall be examined in more detail in the following sections. The remaining part of this section goes on to explore economic, theoretical and practical elements of the ratio behind suspending IP protection in greater detail.

From the example above follows that asymmetry in market size often makes traditional retaliation by suspending tariff concessions ineffective for (developing) countries with small markets: This form of retaliation seldom induces compliance as there is often no harm felt by a larger trading partner. Furthermore, suspending tariff concessions leads to more expensive and maybe even fewer supply for the domestic market which in turn leads to less competition and price increases which can have a detrimental effect on consumers and economic welfare in general. Therefore, one can paraphrase the retaliatory suspension of tariff concessions as ‘shooting oneself in the foot’.

IP amounts to the main assets of most advanced, high-technology industries (such as entertainment-, computer electronics-, software-, multimedia and information technology-, automobile-, pharmaceutical-, biotech- and life science industry) as well as for any famous brand holder around the world. Effective and strong IP protection in all markets around the world thus is one of the central concerns for these industries in order to be able to trade IP protected products and services globally. For an effective and strong protection of IP assets on a global scale, TRIPS is currently the most important single agreement on IP. It is the only international IP agreement which (1) contains provisions on all relevant types of IP rights; (2) integrates the main provisions of several other international IP Agreements by reference; (3) includes a list of detailed provisions on the enforcement of IPRs; and (4) binds currently 150 countries around the globe via the WTO’s dispute settlement system under which compliance with TRIPS can be challenged. Suspending obligations to protect IP under TRIPS therefore is likely to have a very significant negative impact on key industries in (industrialised) WTO Members. Affected industries are certain to lobby their respective (non-complying) governments to do anything necessary to avoid such suspensions in the first place and, if already in place, to act as soon as possible to remove them – thus ensuring compliance. Even if compliance in sectors as politically sensitive as agricultural support in the EU or the US is at stake, the respective interest groups would likely not be able to counter the political pressure from IP dependent industries.

Further, it is often argued that suspending IP protection under TRIPS might have positive welfare effects for a (developing) economy.\textsuperscript{12} This can be the case if the act of suspending specific obligations to protect right holders from a non-complying country leads to
- greater and cheaper availability of the respective IP protected goods / services in the domestic market;
- enables domestic competitors to access and utilise a so far protected technology which then provides them with a (temporary) competitive advantage over the right holders and so strengthens the domestic industry; and
- encourages innovation via (temporary) access to protected technology which then facilitates the development of independent, value added products or services.

However, this positive welfare effect is further dependent on the general economic and technological level of development of the retaliating country: Only if the necessary technology, know how and infrastructure exist to actually produce the goods or offer the services for which IP protection has been suspended, greater availability and a strengthened domestic industry will be the result. On the other hand, in the long run, companies might take a conscious decision not to do business in a particular market if that country is likely to use IP suspension as a tool for trade retaliation and if the resulting losses are so significant that their

\textsuperscript{11} A Subramanian & J Watal, as note 3 above, at 403

\textsuperscript{12} A Subramanian & J Watal, as note 3 above, at 407; M Basso & E Beas, as note 3 above, at 19
potential incurrence outweighs the financial gain of accessing that market. Especially smaller markets might find themselves deprived of goods/services for which IP protection is particular crucial.\textsuperscript{13} Insofar, providing for a legislative mechanism which allows IP suspension might cause a decline in foreign direct investment especially in IP intensive industries and might prevent innovative new products to enter national markets. However, whether this mere possibility becomes reality and whether it outweighs the benefits of ensuring compliance by 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.

When looking at the idea of suspending IP obligations within the larger context of distinct and diverse obligations in the WTO, another ratio for this type of ‘cross-retaliation’ has been proposed: In the Uruguay Round, TRIPS has been agreed to by several countries only because they were expecting various market access and other benefits in exchange. Other countries in turn were only willing to open their agricultural and textile market in exchange for TRIPS or GATS, etc. The concept of single undertaking tied these different areas together and allowed for a ‘great bargain’ of concessions which made the WTO Agreements possible. Suspending obligations under TRIPS can be viewed as a proper mechanism to enforce this ‘great bargain’ on the level of individual trade disputes within the WTO.\textsuperscript{14} By allowing for retaliation in an area where commitments where particular important for most industrialised countries, this reciprocal bargain is reinforced whenever such countries violate commitments of particular importance for developing countries. From this perspective, IP cross-retaliation – as other forms of cross-retaliation – is a mechanism of ensuring, in the case of individual disputes, the balance of interests and reciprocity of concessions as expressed in the outcomes of the Uruguay Round.\textsuperscript{15} As Ethier puts it: It is necessary for the DSU to fulfil its function of maintaining the reciprocity of relevant bilateral bargains across agreements within the Great Bargain.\textsuperscript{16} From this perspective there is no reason to limit or prioritise retaliation to the same sector or agreement – instead, the reciprocity in concessions across the board of the Uruguay Round Results calls for the option of retaliation across the board of WTO Agreements in order to properly reflect and take account of the diversity of national trade interests involved. Cross retaliation thus can be perceived as an essential tool to reinforce individual elements of the great bargain of the Uruguay Round on a bilateral level.

3) Economic Feasibility of Suspending Obligations under TRIPS

The discussion on positive welfare effects above has already hinted to some practical problems regarding technological advancement and capacity which limit this effect of suspending IP protection under TRIPS. This section discusses further limitations which impact on the economic feasibility of seeking to suspend TRIPS obligations.

\textsuperscript{13} Examples are threats of US pharmaceutical companies to withdraw from the Brazilian and the Thai market because of the respective government’s decision to issue compulsory licenses to tackle HIV/AIDS (and in the case of Thailand also heart disease) public health issues. One can further look at the recent example of Apple threatening to withdraw from the French market if France was to go ahead and force Apple to open up its IPod devices for music files from ITunes competitors.

\textsuperscript{14} Ethier, Intellectual Property Rights and Dispute Settlement in the World Trade Organisation, JIEL Vol.7 No.2 (2004), 455

\textsuperscript{15} This approach looks at the regime of suspending obligations much more from the idea of ‘rebalancing’ (see note 2 above).

\textsuperscript{16} Ethier, as note 13 above, at 455
a) Territoriality of IP protection

The first problem lies in the principle of territoriality of IP protection: IP rights are granted by the national legislator for the domestic territory only – a Patent granted by the US Patent and Trademark Office (USPTO) can only be infringed in the US, copyright protection available under the Indian Copyright Act can only be invoked against actions committed in India. If IP obligations are suspended, the suspension equally can only extend to IP rights granted by the national law and thus can only cover domestic actions (in the territory of the retaliating country) in relation to IP for which obligations are suspended. In other words: IP cross-retaliation only suspends protection and allows for unauthorised exploitation in the domestic market of the retaliating country.\footnote{Without referring to the principle of territoriality (but rather Art.51 TRIPS), the arbitrators in EC-Bananas III (Ecuador) case came to the same conclusion; see WT/DS27/ARB/ECU para.153-156.} As obligations to protect IP remain valid and unaffected by the suspension in all other WTO Members, products and services based on the suspension of IP protection cannot be traded with any other WTO country: If a country is authorised to suspend patent protection for a new medication and thus allows its generic production without infringing TRIPS, these generic drugs cannot be exported; in cases of DSB approved suspension of copyright protection for e.g. textbooks, these cannot be distributed in the markets of other WTO Members.

From an economic perspective, IP cross retaliation therefore is only feasible if domestic market is large enough for the suspension to have a significant effect: Only if the non-complying WTO Member exports significant amounts of IP products and services to the retaliating Member, suspension of IP protection will inflict economic loss on the respective industry and thus serve as an incentive for compliance for the country in question.

b) Technological Capacity

Further, especially with regard to high tech products, IP cross retaliation has this compliance-inducing effect only if the retaliating Member has technical capability and general know how for quick and large scale domestic production of copies. For medical drugs, this is not the case for most developing countries as the long debate about effective compulsory licensing and lack of domestic production facilities shows. For entertainment products of the movie- and music industry as well as for software however this will not be so much of an issue as copying of DVDs and CD ROMs does not require much. If no alternative supply is enabled by the suspension of concessions, it does not effectively break the monopoly of the right holder and ensures the production of competing products which would hurt the market of the right holders.

In this regard it is worth pointing out that importing such competing goods/services is a feasible option only from countries where the respective good/service is not covered by IP protection (e.g. because of a conscious decision of the right holder not to apply for protection; because of ongoing transition periods for implementing TRIPS or because the country is not a Member of the WTO and equally not bound by equivalent IP obligations). Otherwise the imports will most likely not undercut the domestic prices for the right holders products significantly and thus will not serve as an incentive for the non-complying country to comply.

c) Security and Certainty against Market Failure

Finally, production and offering of competing products / services will generally only take place if the respective producers/providers have sufficient security and certainty that their
efforts of engaging in the production/offering can be financially recouped. 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, the demand for certainty and security does not equally apply to state owned enterprises which may not be required to produce for financial gain (but from the outset calculate with running a loss).

d) Positive Welfare Effects

Also welfare effects for the retaliating Member may only occur if there is a domestic market demand for (the cheap production of) IP products whose protection could be suspended and if the necessary technology, know how, infrastructure and willingness exist to actually produce the goods or offer the services for which IP protection has been suspended. As explained in section 2) above, only under these conditions greater availability and a strengthened domestic industry will be the result.

Based on these premises, some examples where suspending TRIPS obligations would most likely serve as an effective incentive to compliance: suspending patent protection for certain drugs in countries like China, South Korea, Brazil, India and South Africa (which all have large ‘customer’ demand and sufficient technical capability to produce generic versions). On the other hand, examples for the lack of economic feasibility of IP cross-retaliation are Antigua threatening IPR suspension to ensure compliance in the US-Gambling case or Chad, Mali, Burkina Faso or Niger threatening IPR suspension to ensure a hypothetical DSB recommendation against the US calling for the reduction of cotton subsidies.

e) Options to Circumvent Territoriality?

The limitation of the impact of IP suspension to the domestic market (resulting from the principle of territoriality) could however be circumvented to some extent by ‘grey imports’ diverted onto foreign markets without being seized by custom authorities under Art.51 TRIPS. Further, in case the suspension of IP protection would cover copyrighted works on the internet, the global nature of the internet would allow the worldwide availability of these works and thus also in markets abroad where they could be effectively freely downloaded by end-users. Finally, another WTO member might attempt to take advantage of the suspension in the retaliating country and consider the sale of goods produced under authority of the suspension regime (e.g. via compulsory license) as an act which exhausts the right to control the further resale of these goods in its own territory (international exhaustion by ‘state authorised’ first sale abroad). Van den Broek rightly points out that the extension of the international exhaustion doctrine to allow the legal resale of copies produced in the suspension regime could extend the economic impact of the retaliation and therefore “compensate” for a small market size of the retaliating country. On the one hand, this idea may widen the economic feasibility of IP cross-retaliation and make it attractive also in case the domestic market is too small to significantly harm the right holders of the non-complying country. However, several doubts remain as to the overall practicality and legality of the approach: First, it relies on at least one, preferably more, other WTO member to adopt such an approach to international exhaustion. Second and more importantly, the conformity of such a wide understanding of international exhaustion with

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18 A Subramanian & J Watal, as note 3 above, at 409
19 N Van den Broek, Power Paradoxes in the implementation and enforcement of WTO dispute settlement reports: interdisciplinary approaches and new proposals, JWT Vol. 37 No.1 (2003), 127-136
TRIPS (e.g. Art.28) can be questioned. Whether Art.6 TRIPS will provide an effective shield against dispute settlement proceeding initiated against the country adopting such a exhaustion regime is doubtful: The non-complying country could claim in a dispute that allowing the resale of goods produced under the IP suspension regime does not fall under the scope of the term “exhaustion” in Art.6 TRIPS (so that the latter provision cannot shield against a dispute over the TRIPS conformity of such an international exhaustion regime). This interpretation finds strong support in Art.51 TRIPS and especially the footnotes 13 and 14 of this article: Art.51 TRIPS obliges all WTO Members to take certain border measures against counterfeited or pirated (copyright) goods. While footnote 13 safeguards the Members’ right to opt for international exhaustion by exempting goods “put on the market in another country by or with the consent of the right holder”, footnote 14 determines the law of the country of importation as decisive for the existence of a pirated copyrighted- or a counterfeited trademark good (lex loci protectionis, see Art.5 (2) of the Revised Berne Convention). Especially footnote 13 therefore prevents a country from considering a state-authorised first sale in the retaliating country as an act of international exhaustion since it is not a sale by or with the consent of the right holder. Thus, the obligations under Art.51 TRIPS continue to apply and cannot be circumvented by a wide definition of exhaustion under Art.6 TRIPS.

4) Conditions for Suspending IP obligations under DSU rules

This section explores the rules of the DSU relevant to requests for cross retaliation to suspend obligations under TRIPS in more detail. It starts out with a brief overview on the provisions of Art.22 DSU and then moves to a more detailed discussion on the interpretation and analysis of Art.22.3 (c) & (d) by the arbitrators in the EC-Bananas III (Ecuador) case.

a) Overview

Unless both parties mutually agree on compensation, the suspension of concessions or other obligations is considered to be the last and only temporary resort to ensure compliance in the event that the other party has not implemented recommendation and rulings within a reasonable period of time. The further conditions and procedures for suspending concessions/obligations under the WTO Agreements are regulated in Art.22.3-9 DSU.

Hierarchy of sectors, agreements to be targeted, Art.22.3 (a)-(c) DSU

First, as a general principle, the retaliating Member should consider suspending concessions or other obligations deriving from the same sector (see Art.22.3 (f) DSU) of the same agreement (see Art.22.3 (g) DSU) in which the other party has been found to be in violation of WTO obligations or other nullification or impairment of benefits, Art.22.3 (a) DSU. Second, if the retaliating Member considers this to be not practicable or effective, it can suspend concessions or other obligations from other sectors of the same Agreement, Art.22.3 (b) DSU. Lastly, if the retaliating Member considers also this is not practicable or effective and further considers that “the circumstances are serious enough”, it may seek to suspend concessions or other obligations under another covered agreement, Art.22.3. (c) DSU.

IP cross retaliation would typically involve the last scenario where a WTO Member may have been found to be in non-compliance with concessions/obligations under the Annex 1A Agreements relating to the trade in goods and another Member wishes to retaliate by suspending obligations under TRIPS.

20 Compare also the arbitrators decision in EC-Bananas III (Ecuador) case (see WT/DS27/ARB/ECU, para.155).
Factors to be considered in applying the conditions of paragraph 3 (a)-(c), Art.22.3 (d) DSU

According to Art.22.3 (d) DSU, the retaliating Member shall take into account
- the amount and importance of the trade in the sector where the panel or AB has found a violation or nullification or impairment;
- the “broader economic elements” related to the nullification or impairment; and
- the “broader economic consequences” of the suspension of concessions or other obligations.

Equivalence, Art.22.4 DSU

According to Art.22.4 DSU, the retaliating country must ensure equivalence between the level of concessions or other obligations suspended and the level of nullification or impairment of benefits. The DSU offers no further guidance here and arbitrators have generally taken an “equality-of-harm” approach.  

Procedural Issues

If the parties do not agree on compensation according to Art.22.1 DSU, the DSB shall grant upon request the authorisation to suspend concessions or other obligations unless it decides by consensus to reject the request, Art.22.6 DSU. In case the non-complying Member objects to the level of suspension proposed or claims the principles set forth in Art.22.3 DSU have not been followed, the matter shall be referred to arbitration, Art.22.6 DSU. The arbitration shall be carried out by the original panel (if available) or by an arbitrator appointed by the Director General and shall be completed within 60 days after the expiry of the reasonable period of time for implementing the DSB ruling, Art.22.6 DSU.

The parties shall accept a decision of the arbitrator as final and not seek a second arbitration, Art.22.7. The DSB shall be informed promptly about the arbitrator’s decision and shall grant, upon request, authorisation to suspend concessions or other obligations “where the request is consistent with decision of the arbitrator”, unless the DSB decides by consensus to reject the request, Art.22.7 DSU.

Scope of review of the arbitrator, Art.22.7 DSU

The Arbitrator shall not review the “nature” of the concessions or other obligations to be suspended. He shall determine whether the level of suspension is equivalent (Art.22.4 DSU) to the level of nullification or impairment. The arbitrator may also determine whether suspension is allowed under the respective Agreement (see Art.22.5 DSU). If a claim is made that the principles of Art.22.3 DSU are not followed, the arbitrator shall examine this claim. If he finds that the principles of Art.22.3 have not been followed, the retaliating party shall “apply them consistent with paragraph 3”.

Implementation of the suspension, Art.22.8 DSU

The suspension of concessions or other obligations is only of temporary nature. It shall end as soon as either the WTO inconsistent measure has been removed; the non-complying Member provides another solution to offset the nullification or impairment of benefits; or until a mutually acceptable solution is reached. The DSB continues to monitor the implementation of the DSB ruling (the compliance) in accordance with Art.21.6 DSU.

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21 See the paper provided by Thomas Sebastian for this conference for details. As this topic is addressed in detail in this paper, it will not be further elaborated here.

22 This expression is used in the DSU as to refer to either an individual or a group (see fn.15, 16 to Art.22 DSU).
b) Guidance from the EC – Bananas III (Ecuador) Arbitration

After this brief overview on the DSU provisions relevant for suspending obligations and the related arbitration proceedings, the remainder of this section examines the Analysis and Interpretation of Art.22.3 (c), (d) DSU by the Arbitrators in the EC-Bananas III (Ecuador) case (WT/DS27/ARB/ECU).

Given that Art.22.3 (a)-(c) DSU establish a hierarchy under which suspension should relate to obligations in the same sector of the same Agreement, IP cross-retaliation is only possible under the further conditions of Art.22.3 (c) DSU. As mentioned above, it requires that the retaliating Member considers it not practicable or effective to suspend obligations under the same sector or same Agreement and further considers that “the circumstances are serious enough”. The first question evolving here is the meaning of “not practicable or effective” under Art.22.3 (c) DSU. In line with Art.3.2 DSU, the arbitrators utilise the customary rules of interpretation of public international law as codified in the Vienna Convention on the Law of Treaties (see Art.31 (1) VC): The terms “practicable” and “effective” are interpreted with reference to their ordinary meaning and the objective of Art.22 DSU to induce compliance. Insofar, an examination of the "practicability" of an alternative suspension concerns the question whether such an alternative is available for application in practice as well as suited for being used in a particular case.\(^{23}\) In contrast, the term "effective" was defined by the arbitrators as "powerful in effect", "making a strong impression", "having an effect or result": Therefore, the thrust of this criterion empowers the party seeking suspension to ensure that the impact of that suspension is strong and has the desired result, namely to induce compliance.\(^{24}\) The arbitrators also acknowledged that domestic legal or administrative difficulties in implementing suspensions (here: of GATS obligations) can be validly recognised under the aspect of practicability.\(^{25}\) In cases of great imbalance in trade and economic power between the two parties and especially in case the retaliating country is highly dependent on imports from the non-complying country, the arbitrators stressed that suspension of WTO obligations may entail more harmful effects for the former than the latter. In these circumstances, considering in which sector of which agreement suspension would be potentially least harmful for the retaliating country suffices for an effectiveness determination to be consistent with Art.22.3 DSU.\(^{26}\)

The arbitrators further stress that the subparagraphs of Article 22.3 do not require a suspension within the same sector or under the same agreement be neither practicable nor effective.\(^{27}\) Instead, either ineffectiveness or impracticality is sufficient to move to other sectors/agreements under Art.23.3 (b) or (c) DSU.

With regard to the burden of proof in Art.22.3 DSU, the arbitrators followed from the obligation to provide reasons for applying Art.22.3 (b) or (c) DSU that “the complaining party requesting suspension has to come forward and submit information giving reasons and explanations for its initial consideration of the principles and procedures set forth in Article 22.3 which led it to request authorization under another sector or another agreement than those where a violation was found. However, by the same token, it would then be for the other party to bear the ultimate burden of showing that suspension within the same sector or under the same agreement is both practicable and effective for the party requesting suspension.”\(^{28}\) This two tier system requires the retaliating state to substantiate that in all

\(^{23}\) See WT/DS27/ARB/ECU, para.70
\(^{24}\) WT/DS27/ARB/ECU, para.72
\(^{25}\) Compare WT/DS27/ARB/ECU, para.113
\(^{26}\) WT/DS27/ARB/ECU, para.73
\(^{27}\) WT/DS27/ARB/ECU, para.74
\(^{28}\) WT/DS27/ARB/ECU, para.75
sectors and all agreements (in the meaning of Art.22.3 (f) and (g) DSU) where a violation occurred suspension is either not effective or not practicable. It is then for the non-complying state to prove that suspensions under the ‘violated’ sector/agreement are both practicable and effective. While the final burden is carried by the non-complying state, the retaliating country must assess each and every sector of each and every agreement where a violation was found and offer reasons for non-practicality or non-effectiveness of suspension in all these areas. A related issue addressed is that the retaliating state is not obliged to positively show the effectiveness and/or practicality of the chosen (cross) retaliation.\footnote{WT/DS27/ARB/ECU, para.77-78} The negative formulations in Art.22.3 (b)-(c) indicate merely an obligation to substantiate that the suspension under the same sector and same agreement are \textit{not} practical or \textit{not} effective.

Cross-retaliation by suspending obligations in other agreements is further conditioned upon findings that the “\textit{circumstances are serious enough}” (see Art.22.3 (c) DSU). After defining the ordinary meaning of ‘serious’ as "important, grave, having (potentially) important, especially undesired, consequences; giving cause for concern; of significant degree or amount worthy of consideration",\footnote{WT/DS27/ARB/ECU, para.81 and 121-122} the arbitrators went on to seek further guidance in the context of Art.22.3 DSU, notably in the factors listed in Art.22.3 (d).\footnote{This is backed by the wording on subparagraph (d) which states that \textit{in applying the principles set forth in subparagraph (a-c)\ldots.}} Therefore, the seriousness of circumstances can result from:

1. the trade nullified or impaired by the WTO inconsistent measure as well as the proportion of such trade in relation to the overall trade in the relevant sector/agreement and the importance of such trade to (the economy of) the retaliating state.\footnote{Compare WT/DS27/ARB/ECU, para.82-84} In the Bananas case, the arbitrators found Ecuador in fulfilment of this condition by having examined the role of the banana sector for its economy and its exports.\footnote{WT/DS27/ARB/ECU, para.128-130}

2. Alternatively, seriousness may result from the broader economic elements related to the country suffering nullification or impairment and even – especially in cases of great economic imbalance between the two parties – from broader economic consequences of the suspension of obligations for the retaliating country (and of course the non-complying country).\footnote{See WT/DS27/ARB/ECU, para.86} Here it is worth noting that the arbitrators did not require a \textit{causal link} but merely a \textit{relation} between the nullification/impairment and the broader economic elements: This was shown by Ecuador’s argument that the WTO inconsistencies in the EC Banana regime have aggravated Ecuador’s economic problems (especially in the bananas sector).

Under the factors relevant for Art.22.3 (d) and thereby also for the principles of Art.22.3 (a)-(c), in particular in determining the seriousness under subparagraph (c), one could also recognise ‘great bargain’ of reciprocal concessions which made the WTO Agreements possible. The idea is to give specific weight to the fact that when trade benefits crucial for one country are nullified or impaired, it should be entitled to suspend obligations of specific relevance for the non-complying country. As explained above, this could serve as a vehicle to re-adjust the balance of bilateral trade interest within individual WTO disputes. Based on the interpretation in \textit{EC-Bananas}, this idea could be implemented when considering the trade nullified or impaired by the WTO inconsistent measure, the “importance of such trade” to (the economy of) the retaliating state and the “broader economic elements related to the nullification or impairment” (Art.22.3 (d) DSU). The importance and broader economic aspects of nullified or impaired benefits thus can play a key role in determining effectiveness, practicality and especially seriousness under Art.22.3 (c) DSU and be crucial for authorising
cross retaliation. In short: A high importance of the nullified/impaired trade sectors then serves as a ‘justification’ for suspension of obligations (in other sectors or agreements) which where only made because of the expectation of trade benefits flowing from commitments which the other party is not complying with.

In their conclusions and suggestions, the arbitrators made clear that with regard to some goods (destined for final consumption by end-consumers in Ecuador) and with regard to "wholesale trade services" in the principal sector of distribution services suspending obligations under the same sector/agreement had not been proven to be impracticable or ineffective. Therefore, Ecuador had to stick first to the general principle in Art.22.3 (a) DSU to suspend these obligations related to same sector/agreement where a violation by the EC had been found.\(^{35}\) Only to the extent that suspension of these obligations, in accordance with subparagraphs (b) and (c) above, is insufficient to reach the level of nullification and impairment found by the arbitrators, Ecuador was allowed to request and obtain authorization by the DSB to suspend obligations under the TRIPS Agreement.\(^{36}\)

Recognising the difficulties resulting from the asymmetry in market size and trade powers, the arbitrators finally acknowledged “that Ecuador may find itself in a situation where it is not realistic or possible for it to implement the suspension authorized by the DSB for the full amount of the level of nullification and impairment estimated by us in all of the sectors and/or under all agreements mentioned above combined. The present text of the DSU does not offer a solution for such an eventuality.”\(^{37}\)

The decision of the arbitrators points out the key hurdles which a country wishing to cross-retaliate by suspending TRIPS obligations must take: It must assess the practicality and effectiveness of suspending obligations in all sectors and agreements where its opponent is found to be not complying with WTO rules. This places quite a burden on developing countries which may lack mechanism for such an assessment. If effectiveness and practicality is found, an authorisation to suspend TRIPS obligations will only be granted to the extent that suspension under the same sector and same agreement is insufficient to reach the level of nullification and impairment suffered.

5) Conflicts with International Agreements

In this section, several potential conflicts will be discussed which may arise in case the DSB authorises the suspension of obligations under TRIPS. This is due to the fact that

a) TRIPS incorporates, by virtue of Art.2 (1) and 9 (1), the key substantive provisions of the Revised Berne Convention on the Protection of Literary and Artistic Works (Revised Berne Convention, RBC) and of the Paris Convention for the protection of Industrial Property (Paris Convention, PC);

b) several other multilateral Agreements on the protection of IP, both prior and post TRIPS, exist which provide for obligations to protect foreign right holders;

c) an ever increasing number of bilateral Free Trade Agreements (FTAs) contain substantive obligations to protect IP which often go way beyond the obligations under TRIPS

d) International Conventions on the protection of human rights often offer an individual right to (intellectual) property which could be affected by a suspension of TRIPS obligations.

\(^{35}\) See WT/DS27/ARB/ECU, para.174

\(^{36}\) WT/DS27/ARB/ECU, para.173

\(^{37}\) WT/DS27/ARB/ECU, para.177
In the following these four types of potential conflicts will be addressed in order to examine whether distinct treaty obligations may interfere with the authorisation, under WTO law, to suspend TRIPS obligations

a) Obligations under the Berne- and Paris Convention which are Incorporated into TRIPS

Art. 2 (1) TRIPS states that “in respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967)”.

Further, Art.9 (1) TRIPS provides that “Members shall comply with Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto”.

Apart from these references of more general character and probably with the greatest practical importance, TRIPS contains various other norms with include or refer to specific provisions or complete Agreements of international IP law.

Here the question arises to what extent the authorisation of suspending certain obligations under TRIPS also covers obligations which stem from Agreements that are (partly) incorporated into TRIPS by reference?

As much as the obligation is an obligation following from a provision incorporated into TRIPS by reference – and thus in the end an obligation under the body of WTO law – it arguably can be legally suspended under the same conditions (Art.22 DSU) as obligations following from TRIPS provisions. However, with regard to these TRIPS obligations which have a relation to another International IP Agreement, the EC argued in the EC-Bananas case that Art.2 (2) TRIPS prevents their suspension. Art.2 (2) TRIPS provides that “nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits”.

One can dispute whether the language (“nothing in Parts I to IV of this Agreement shall derogate”) aims to establish a general hierarchy of norms between TRIPS and the other international IP Agreements mentioned. Since this would establish the superiority and prevalence of the said pre-existing IP treaties over TRIPS, it is more likely that Art.2 (2) aims to prevent the use of TRIPS as an excuse to neglect obligations following from other international IP treaties where these go beyond the TRIPS minimum standards (especially in case of the Rome Convention).

Even if one was to interpret Art.2.2 as establishing a general hierarchy of norms, the provision does not address the specific issue of suspending TRIPS obligations (related to these international IP Agreements) in the course of facilitating compliance under the DSU. This is because the obligation under Art.2.2 TRIPS does not extend to part V of TRIPS (Art.63, 64 TRIPS) which contains the dispute settlement provisions of TRIPS and calls for the application of Art.XXII, XXIII GATT and the DSU.

Thus, as it was rightly pointed out by the arbitrators in the EC-Bananas case and further commentators, Art.2 (2) TRIPS does not stand in the way of suspending TRIPS obligations which are integrated into TRIPS via reference.

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38 This obligation does not exist with regard to the moral rights set forth in Art.6 bis of the RBC; see Art.9 (1) second sentence TRIPS.
39 See Art.14, 16 (2)-(3), 22 (2) b), 35, 39 (1)-(3) TRIPS.
40 One could further question whether this language falls under Art.30 (2) of the Vienna Convention on the Law of Treaties so that the existing obligation under these international IP conventions prevail over TRIPS; on this debate see the related discussion regarding independent obligations following from these treaties below.
42 WT/DS27/ARB/ECU, para.151; A Subramanian & J Watal, as note 3 above, at 410-411
Further, the retaliating country could request *Art. 2 (2) TRIPS as one of the obligations which would be suspended* under Art.22.3 (c) DSU. In this way, it would eloquently avoid any debate about the scope of this norm and to which extent it requires – as part of TRIPS – the observation of obligations following from the four international IP Agreements mentioned therein. Of course, this only solves the problem of incorporated obligations as a part of the WTO body of law.

However, it does not address the issue to what extend there is a justification for suspending the *distinct and independent obligation* under the relevant international IP agreement itself. Here the first question arises whether a suspension of this obligation can be legalised by the authorisation under the WTO / DSU system? Alternatively, a right to withdraw or suspend these independent obligations might follow from Art.30 of the Vienna Convention on the Law of Treaties (VC) or from general doctrines of Public International Law. This alternative justification for suspending independent obligations, especially under the RBC or PC will be discussed in the next subsection together with the same question raised in relation to obligations from other international IP treaties (such as the WCT or WPPT) or from bilateral Free Trade Agreements (FTAs) which incorporate rules on IP protection.

With regard to the first potential justification, the independent obligations following from the PC or RBC are not automatically set aside by the fact that under WTO rules, suspension of TRIPS provisions is allowed. The arbitrators in the EC-Bananas case underlined this by stressing that their decision under Art.22.6&7 DSU does not pass any judgement on whether Ecuador “would act inconsistently with its international obligations arising from treaties other than the agreements covered by the WTO”. An authorisation to suspend TRIPS obligation, in itself, therefore does not include a right to suspend corresponding or related obligations under distinct international IP regimes. The question to what extent Art.30 VC, Art.60 VC or general reprisal doctrines of public international law may justify the withdrawal or suspension of the independent obligations under the PC or RBC shall be discussed below.

**b) Independent Obligations Deriving from Multilateral IP Agreements**

This subsection examines the grounds for justifying the (often incidental) withdrawal of obligations from international Agreements on the protection of IP such as the RBC, PC or Rome Convention (RC) – but also from more recent, post-TRIPS Agreements such as the WIPO Copyright Treaty (WCT) or the WIPO Performing Artists and Phonogram Producers Treaty (WPPT). While basically all WTO members are also signatories to the RBC and the PC, this is not the case with the RC – let alone the more recent WCT and WPPT.\(^44\)

*Art.30 of the Vienna Convention on the Law of Treaties*

Some commentators have referred to Art.30 of the Vienna Convention on the Law of Treaties (Vienna Convention, VC) to resolve the conflict between an authorisation to suspend TRIPS norms under the rules of the DSU and related obligations under the RBC and PC in particular.\(^45\) Whether Art.30 VC is relevant here, however remains doubtful for several reasons:

\(^{43}\) WT/DS27/ARB/ECU, para.152

\(^{44}\) Information on Membership and Signatories can be obtained from [http://www.wipo.int/treaties/en/](http://www.wipo.int/treaties/en/)

\(^{45}\) A Subramanian & J Watal, as note 3 above, at 411: The argument is that under customary rules of interpretation of international law, the Vienna Convention gives in case of a conflict between two obligation from distinct international Agreements precedence of the later treaty over the older one. TRIPS as the later treaty in comparison to the RBC and PC thus would prevail – which arguably then also includes that a legalised suspension under TRIPS does not involve an actionable breach of the RBC or PC.
Art.30 of the Vienna Convention on the Law of Treaties addresses the rights and obligations of states which are parties to successive treaties relating to the same subject matter. Here one can already doubt the applicability of the VC in the WTO context and for all WTO members. Given the fact that the VC is not as such part of the body of WTO law and several members (such as the USA) are not signatories to the VC, its applicability can only follow from the reference to the “customary rules of interpretation of public international law” in Art.3.2 DSU. Art.30 however is part of Section 2 of Part III of the VC which carries the heading “Application of Treaties”. The rules on treaty interpretation, Art.31 to 33, are part of Section 3 with the heading “Interpretation of Treaties”. Thus, from the context of the VC, Art.30 is not part of the rules of (treaty) interpretation and therefore not referred to by Art.3.2 DSU. This result is confirmed by the individual headings of Art.30 (“Application of successive treaties relating to the same subject matter”) on the one hand and Art.31 to 33 (all carrying the term “interpretation”) on the other.

Under Art.30 VC the key argument for conflicts to be resolved in favour of TRIPS is that TRIPS as the later treaty in comparison to the RBC and PC thus would prevail with regard to norms involving the same subject matter. This hierarchy is then applied to an authorised suspension under TRIPS as overruling a breach of the RBC or PC. However, with regard to the scope of Art.30, several questions remain: First, the heading suggests that Art.30 only deals with “successive treaties relating to the same subject matter”. TRIPS though is not a treaty which should be regarded as succeeding the most recent Acts of the PC or RBC – even though all Agreements deal with IP law. Further and more importantly, one must doubt whether any hierarchy established under Art.30 VC can be extended to cover the specific issue of suspending obligations: The fact that there is a rule regarding the prevalence of distinct obligations does not necessarily mean that this rule deals with an (authorised) suspension of the prevailing obligation and then can be employed to justify breaching the inferior obligation. To the contrary, it seems rather doubtful without any further indication to assume such an extended scope of Art.30 VC. This is underlined by the substantive rules in Art.30 which all aim to solve conflicts between modified (and therefore distinct) norms in successive acts of an international treaty. These conflicts of successive international rule-making are dissimilar to conflicts caused by different rule-enforcement mechanisms in international law.

Finally, the mere existence of Art.60 VC which deals with the “termination or suspension of the operation of a treaty as a consequence of its breach” speaks against the applicability of Art.30 in this context. Since the Vienna Convention provides for a rule on suspending treaties (in whole or part) as a as a response to a material breach of treaty law, there should be no room for applying Art.30 in this context.

If however Art.30 VC would be applied as to extend the hierarchy it prescribes to issues of suspending obligations, in most scenarios authorised TRIPS suspensions would not serve to legalise withdrawing or otherwise not honouring related obligations under international IP treaties. Instead, a more detailed analysis of the rules emanating from Art.30 VC shows that TRIPS seldom would be the prevailing obligation: Art.30 (2) VC states that “when a treaty specifies that it is subject to, or that it is not to be considered as incompatible with, an earlier or later treaty, the provisions of this other treaty prevail.” Art.2.2 TRIPS states that “nothing in Parts I-IV (of TRIPS) shall derogate from the existing obligations that Members may have to each other under the Paris Convention, the

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46 A Subramanian & J Watal, as note 3 above, at 411
47 This is supported by the fact that TRIPS on the one hand and PC and RBC on the other have been negotiated in distinct forums and are administered by different organisations (WIPO, WTO). Given the fact that both PC and RBC have undergone several revisions, Art.30 rather applies in relation to the different versions (Acts) of these agreements.
48 For a further discussion on the role of Art.60 VC in the given context of suspending TRIPS obligations and its effect for related obligations from other international IP agreements see below.
Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits”. Does this terminology (“nothing (...) shall derogate from obligations under (...)”) fall under the Art.30 (2) VC? If so, the respective obligations under the international IP treaties mentioned in Art.2 (2) TRIPS would prevail over (conflicting) obligations in TRIPS. Applied to the suspension of obligations, the authorisation under the WTO/TRIPS regime does not extend to the independent obligations under these international agreements. To the contrary, an authorised or justified suspension of RBC, PC, etc. obligations would arguably extend to and cover TRIPS obligations (and insofar have a ‘legalising’ effect).

In case one does not find Art.30 (2) VC applying to the terminology of Art.2.2 TRIPS, the later Treaty prevails over the earlier, if all parties to the earlier treaty are also parties to the later one, Art.30 (3) VC. Since there are currently some signatories to the PC and RBC which are not (yet) WTO Members, Art.30 (3) does not apply here. The same is true for all other international IP treaties such as the RC, WCT or WPPT which have much more limited signatories. Otherwise, between states which are parties to both treaties, again the later treaty prevails, and between states of which one is only bound by one of the treaties, the treaty to which both parties are bound will prevail, Art.30 (4) a) and b) VC. Taken together, these rules of the VC trigger the prevalence of TRIPS in relation to the PC, the RBC and the RC either because TRIPS is the later Agreement or because it is the one to which both parties are bound. Insofar, TRIPS obligations would prevail over those resulting from PC, RBC or RC and arguably an authorised suspension of the former could have a ‘legalising effect’ on neglecting the latter. However, this is not the case for suspending TRIPS obligations in disputes between WTO members which are also signatories to the WPPT or WCT which have been signed after the TRIPS Agreement. For these about 40 states the obligations under the WCT and WPPT would prevail over TRIPS obligations so that again a suspension of TRIPS obligations would have no ‘legalising effect’ on neglecting WCT or WPPT obligations.

In conclusion, attempts to utilise Art.30 VC in order to justify withdrawing obligations from international IP agreements are often without the desired effect. More important, the applicability of Art.30 VC in the WTO context in general; in the relation between TRIPS and other international IP Agreements in particular; and for the issue of suspending obligations in the course of dispute settlement procedures seems extremely doubtful.

Art.60 of the Vienna Convention

Another path to justify suspending or neglecting obligations relating to international IP agreements (as a means for retaliating against countries which do not honour their own international obligations in relation to the retaliating country) could be found in Art.60 VC. This provision concerns the “termination or suspension of the operation of a treaty as a consequence of its breach” and, under paragraph (2) b) authorises a party to a multilateral treaty specifically affected by a material breach to suspend the operation of the treaty in whole or in part in the relations between itself and the defaulting state. It follows that Art.60 obligations will always have to be considered a violation of the (respective / equivalent) obligation under the PC, RBC, etc. Even though applying Art.30 VC, one could still argue that this rather depends whether general doctrines of Public International Law offer principles such as reprisal under which a state may suspend obligations under international treaties as a means of retaliation (see below).

Art.60 (3) further defines the concept of material breach as to cover, inter alia, the violation of a provision essential for the accomplishment of the object and purpose of the treaty.

49 The question under this approach then is whether it necessarily means that an authorised suspension of TRIPS obligations will always have to be considered a violation of the (respective / equivalent) obligation under the PC, RBC, etc. Even though applying Art.30 VC, one could still argue that this rather depends whether general doctrines of Public International Law offer principles such as reprisal under which a state may suspend obligations under international treaties as a means of retaliation (see below).

50 Such as the Russian Federation Algeria and Iran (the latter being only signatory to the PC).

51 These WIPO Conventions concern – roughly speaking – extended copyright and related rights protection in the ‘Information Age’.

52 Again it arguably still depends whether reprisal doctrines of Public International Law may allow a state to suspend obligations under international treaties as a means of retaliation (see below).

53 Art.60 (3) further defines the concept of material breach as to cover, inter alia, the violation of a provision essential for the accomplishment of the object and purpose of the treaty.
VC establishes a regime of suspending treaty obligations in case another party to the same treaty has committed a material breach of that treaty. Art.60 VC however does not address the issue of suspending obligations resulting from different treaties (even if both states are parties to both treaties). It can therefore not offer a justification for suspending obligations from international IP Agreements in cases of interest here which concern violations of WTO Annex 1A or 1B Agreements (on trade in goods or services).

**Doctrine of Reprisal or Countermeasures**
A final option to justify the suspension of obligations from international IP treaties could be the general doctrine of reprisal under public international law. Reprisals are considered as a form of countermeasures in respect of wrongful acts which are taken as measures of self-help outside a specific system of dispute resolution or enforcement of international law. While reprisal action (without the use of force in peacetime) as such is considered legitimate under international law, the individual requirements are often debated and less clear. In the following, a brief attempt will be made to outline the main conditions and core problems when relying on the doctrine of reprisal to justify a suspension of obligations from international IP treaties.

**Subsidiarity:** One could question the right to invoke the doctrine of reprisal since the WTO dispute settlement system (especially Art.22 DSU) and also Art.60 VC might take precedence. However, the prevalence or exclusivity of these systems depend on their applicability. As already explained above the mechanism to suspend obligations under the DSU cannot justify neglecting independent obligations outside WTO treaty law. Likewise, Art.60 VC does not apply to suspending treaty obligations taken in response to violations of a distinct treaty.

**Basic elements:** The main conditions for reprisal action are (1) that the acting entity and the addressee be states; (2) that the act is a retort to a previous act by the addressee which the actor can reasonably consider to be a violation of international law; and (3) that its purpose is to coerce the addressee to change its policy and bring into compliance with international law. While suspending IP obligations is a response to violations of WTO law to induce compliance of the violating state, the first condition may be problematic in our context: Can one really consider the suspension of obligations to protect the IP rights of private entities as acts against the states to which these entities belong? Art.1 (3) TRIPS states that WTO Members “shall accord the treatment provided for in this Agreement to the nationals of other Members”. Art.1 and 3 (1) & (2) RBC and Art.1-3 PC take a similar approach by focusing on obligations of states to provide in their national law private rights and non-discriminatory treatment to private entities belonging to other state parties. Here one could argue that if the main subjects of the treatment accorded are private entities, the suspension of obligations to provide for such treatment likewise is directed against these private entities.

On the other hand, the fact that international IP treaties seldom are considered to have direct effect and equally do not provide for rights directly applicable to private entities could be held in favour of the addressees of the (suspended) obligations being states rather than individuals. This is further supported by the principle of territoriality in IP law: The rights available to private entities always flow from the domestic, national IP statutes of the country where IP protection is sought and not from international obligations to provide such rights in the

55 Compare WT/DS27/ARB/ECU, para.152
56 K J Partsch, as note 54 above, at 204
57 Ibid, at 201
58 Compare also the arbitrators decision in the *EC-Bananas* case which highlighted the interference “with private rights owned by natural and legal persons” as a problematic issue of suspending TRIPS obligations (WT/DS27/ARB/ECU, para.157).
national law. For this reason, a suspension of IP obligations (on the international level) as such is not sufficient to withdraw the availability of the rights available to the private entities on the national level. As further explained in the section on implementing IP cross retaliation below, national laws must provide for the opportunity to withdraw protection in case a country is authorised to do so under the DSU. From all this follows a two tier system with an international obligation of which states are addressees and beneficiaries and a national implementation measures which provides the private IP rights to private entities. Hence, the suspension of international obligations to provide IP protection – even though it is a necessary precondition for withdrawing private rights and in the end affects private entities – is not directed at private entities but against the states to which these entities belong.

Exhaustion of options for judicial settlement or arbitration: Amongst the remaining requirements for taking reprisal action the most relevant one is the question to what extent means of arbitration or judicial settlement must be exhausted before any reprisal is initiated. There seems to be general support for such a requirement – at least in cases where the judges or arbitrators have the competence to impose provisional measures. With regard to reprisal actions under UN systems, it must be asked whether enforcement institutions exist and function effectively as to render measures of self help unnecessary. For our scenario of reprisal action because of a breach of obligations under WTO law, this primarily means the exhaustion of the dispute settlement remedies under the DSU. This condition should be fulfilled simply because the question at stake here only arises as soon as the DSB has authorised the suspension of obligations under TRIPS.

One could then question whether also remedies under a dispute settlement or enforcement mechanism of the international IP agreement must be exhausted. This should be answered in the negative: Since the cause and justification for the reprisal action is a violation of WTO law and not a breach under the respective IP Agreement, dispute settlement or enforcement systems under the latter have no mandate to resolve non-compliance with WTO law. But even if one considers it necessary to equally utilise existing remedies under the IP Agreement, their exhaustion is only a precondition for reprisal if their offer an effective mechanism for enforcement. With regard to the RBC and the PC, Art.28 PC and Art.33 RBC allow for disputes to be brought in front of the International Court of Justice (ICJ) while at the same time permitting countries to enter into a reservation as to the jurisdiction of the ICJ. The effectiveness of these two systems can however be seriously questioned since, to the knowledge of the author, in the more than 100 years history of the RBC and PC not a single case has been brought in front of the ICJ.

In conclusion, the public international law doctrine of reprisal does offer for a mechanism which allows suspending obligations for IP protection from international treaties – be they signed before or after TRIPS. Whether or not this doctrine applies and offers a right to withdraw from international obligations, will depend on the circumstances of the individual case. If reprisal is generally allowed, then the retaliatory measure must be proportionate to the preceding violation of international law – without being necessary of the same kind. Since the reprisal action should generally be based on the amount and type of retaliation authorised

59 Such as action only against the violating state and only by the ‘victim’ state; the prohibition of precautionary reprisals and the need for prior negotiations over the withdrawal of the violating action and compensation; see K J Partsch, as note 54 above, at 201.
60 Ibid, at 201-202
61 Ibid, at 202
62 From the perspective of WTO law, this follows from Art.23.1 DSU.
63 This ineffectiveness of enforcing obligations under the RBC and the PC had been one of the central problems identified which then led to initiatives for including negotiations for a new treaty on IP protection into the GATT Uruguay Round: compare also T Cottier, The Prospects for Intellectual Property in GATT, CMLR 1991, at 393.
64 K J Partsch as note 54 above, at 202
by the DSB in accordance with the DSU, proportionality should be guaranteed by the equivalence test of Art.22.4 DSU.\textsuperscript{65}

c) IP Obligations under Bilateral Free Trade Agreements

Over the last decade, one can observe a recent tendency for so called ‘TRIPS-plus’ provisions in bilateral Free trade Agreements (FTAs) which provide for obligations to implement IP protection above the ‘minimum standards’ of the TRIPS Agreement. Especially the EC and the US have targeted key markets in the developing world\textsuperscript{66} (as well as some developed trading partners)\textsuperscript{67} with these FTAs in order to ensure – from the IP protection perspective – standards necessary for innovative bio- and high tech firms to ensure an optimum return on investment in these markets. Often the IP obligations included in these FTAs resemble the domestic standards of the US or the EU – unfortunately equally often without at the same time transferring domestic safeguards of the public domain or against anticompetitive behaviour.

For a WTO Member bound by FTA-obligations to provide ‘TRIPS-plus’ IP protection, suspending TRIPS rules (with lower standards) does not make any sense in disputes with its FTA contractor. Therefore again the question arises to what extent obligations under these agreements limit the ability for and scope of IP cross-retaliation under the DSU. In order to have a compliance-inducing effect by inflicting harm on the non-complying contractor, the retaliating country must further be in a position to also suspend these ‘TRIPS plus’ protection standards.

With regard to potential conflicts between an authorisation to suspend TRIPS and an obligation to protect IP rights under the FTA, one could again consider the application of Art.30 (3), (4) (a) VC which would lead to the prevalence of the later treaty. In most cases, this would be the FTA. However, even though the Vienna Convention generally applies to bilateral Agreements between states by virtue of Art.1, 2 (a) VC, its applicability in this particular context of suspending obligations remains extremely doubtful for the reasons given in subsection b) above.

Similarly, Art.60 VC does not apply so that one again must consider the doctrine of reprisal as a means of justifying the (incidental) suspension of FTA obligations for the protection of IP. Again, the parameters outlined above apply. With regard to the problematic issue that the addressee of the reprisal action must be the ‘violating’ state and not private right holders, one can fairly safe assume that also FTAs distinguish between international obligations and their national implementation.\textsuperscript{68} The matter could however become more complicated in cases where the FTA provisions aim to provide direct effect and prescribe rights which right holders can invoke in front of national courts or specific arbitration panels.

An interesting further question would be to what extent dispute resolution mechanisms under the FTA must be exhausted before reprisal is conducted.\textsuperscript{69} In line with what has been stated above, dispute resolution and enforcement devices under the FTA should not be of relevance, since the initial cause and justification for reprisal action (in form of suspending IP protection) lies in a violation of WTO law. From Art.23.1 & 2 (a), (c) DSU follows that the FTA

\textsuperscript{65} This should be the case whenever the reprisal action concerns IP protection obligations which do not go beyond what is provided as ‘minimum standards’ of protection under TRIPS (see further discussion in relation to ‘TRIPS-plus’ FTA provisions in subsection c) below).

\textsuperscript{66} Singapore, South Korea, Jordan, Oman, Chile, Peru, amongst others.

\textsuperscript{67} Such as Australia or Canada (the latter only, if one counts NAFTA as a multilateral FTA).

\textsuperscript{68} This would be different only in those cases where the FTA, by virtue of its own provisions, provides IP rights which offer protection to right holders in the contracting state without the need of the latter to implement these provisions in its national law.

\textsuperscript{69} In this regard, compare the discussions in the Panel on ‘Dispute Settlement under FTAs and the WTO’ at this conference.
mechanism should have no mandate or competence to address whether a violation has occurred and how retaliation may be conducted. If however, the initial violating measure is equally in conflict with FTA rules and actionable under the FTA dispute settlement mechanism, reprisal action outside this mechanism will most likely not only violate the FTA (dispute settlement) rules, but also the general doctrine of reprisal.

A final point is worth mentioning with regard to taking reprisal action which affects obligations under FTAs. Above it has been mentioned that the necessary adherence to the principle of proportionality should be guaranteed by the equivalence test of Art.22.4 DSU. This is not so for TRIPS plus IP obligations under FTAs as they go beyond what TRIPS prescribes as so called ‘minimum standards’. Suspending an obligation which imposes a stronger burden to protect IP rights arguably affects the right holder more and inflicts a potentially higher degree of economic loss on him. On the basis of an ‘equality of harms’ analysis, a graver violation of (WTO) obligations from the non-complying country may be necessary to justify the reprisal. Hence, reprisal action aimed at suspending TRIPS obligations but equally (or even incidentally) suspending TRIPS-plus obligations may not draw sufficient justification from the weight of the initial violation and thus be viewed as not proportional. Whether this theoretical equation holds true in practice depends on the circumstances of the individual case and especially the economic value of the TRIPS-plus element. However one should be much more careful to assume proportionality on the basis of meeting the equivalence test under Art.22.4 DSU if ‘TRIPS-plus’ FTA obligations are at stake than in cases of ‘TRIPS-minus’ obligations under the RBC or PC.

d) Conflicts with the Protection of (Intellectual) Property under International Human Rights Law

This subsection finally takes a brief look at potential conflicts which the suspension of IP protection might cause in relation to international law on the protection of human rights. Since a detailed analysis of human rights protection is outside the scope of this paper, I attempt only a brief overview on potential conflicts in relation to a few, international most prominent human right treaties and declarations. Focus shall be placed on the question whether the provisions and doctrines discussed above may equally offer a justification for the retaliating country. Any such country aiming to suspend obligations under TRIPS however is well advised to scrutinise (1) international human right law; (2) possible regional agreements on human rights protection; and (3) its domestic (constitutional) law regarding human rights in general and the protection of (intellectual) property in particular. Indeed, as suggested by some commentators, (temporary) withdrawing IP rights might constitute an act of expropriation under national or international law.

The Universal Declaration of Human Rights provides in Art.17 that “(1) Everyone has the right to own property alone as well as in association with others. (2) No one shall be arbitrarily deprived of his property.” Art.27 of the Declaration then contains a more specific provision on IP rights in its paragraph 2 which reads: “Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic

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70 E.g. FTA provisions guaranteeing market access for the (developing) trading partner.
71 See the paper of Thomas Sebastian on Art.22.4 DSU.
72 See A Subramanian & J Watal, as note 3 above, at 408 (referring to T Cottier, Intellectual Property in International Trade Law and Policy: The GATT connection, Aussenwirtschaft (1992), at 103-105)
production of which he is the author.” As to potential limitations to the rights set forth in the Universal Declaration, Art.29 proscribes in the relevant paragraphs one and two that: “(1) Everyone has duties to the community in which alone the free and full development of his personality is possible. (2) In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society.”

Similar to Art.27 of the Universal Declaration, Art.15 1) (c) of the International Covenant on Economic, Social and Cultural Rights\(^74\) ensures the protection of IP by obliging the states parties to the Covenant to recognize the right of everyone “to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.” According to Art.4 of the Covenant, state parties “recognize that, in the enjoyment of those rights provided by the State in conformity with the present Covenant, the state may subject such rights only to such limitations as are determined by law only in so far as this may be compatible with the nature of these rights and solely for the purpose of promoting the general welfare in a democratic society.”

Under both the Universal Declaration of Human Rights (UDHR) as well as under the International Covenant on Economic, Social and Cultural Rights (ICESCR), individuals enjoy either the “protection of” (UDHR) or the “benefits from” (ICSECR) the moral and material interests resulting from any scientific, literary or artistic production of which he is the author. All forms of implementing a suspension of IP protection in national law\(^75\) will either prevent or at least limit the ability of the right holder to derive material benefits from the protected subject matter. As this is not only a natural consequence but partly even the one of the main intentions behind IP suspension, it could amount to a violation of these rights.

Two specific questions arise in this context: (1) To what extend do the provisions of the Vienna Convention and especially the general doctrine of reprisal apply as a potential justification for infringing the rights under Art.27 UDHR or Art.15 ICSECR? (2) If this is not the case, can the retaliating country rely on provisions in the UDHR or ICSECR which allow for limitations to the rights granted?

With regard to the first question, Art.30 VC cannot offer a solution since TRIPS is certainly not successive treaty to the UDHR, ICESCR or any other human rights treaty. Equally Art.60 VC does not apply, since the initial (material) breach of a treaty which then allows suspending treaty obligations must relate to the same treaty. Further on, Art.60 (5) VC prohibits retaliation under its paragraphs (1)-(3) in relation to treaty provisions on “the protection of the human person contained in treaties of humanitarian character”. Arguably, both Art.27 UDHR and 15 ICESCR fall under Art.60 (5) VC, so that the suspension of these provisions on the protection of scientific, “literary or artistic production” cannot be suspended.

Finally, the reprisal doctrine could offer a justification for disregarding Art.27 UDHR and 15 ICESCR (or similar international norms on human rights protection for IP right holders) as a response to breaches of WTO law by the non-complying state. However, one must recall that a basic requirement for the application of the reprisal doctrine is that “the acting entity and the addressee be states”.\(^76\) International human rights treaties aim to protect the rights of individuals against the exercise of state authority and do no concern the relation between sovereign states. Addressees and beneficiaries of the protection under human rights law are private individuals and entities since the objective of these treaties (and declarations) is to


\(^{75}\) See section 6) below.

\(^{76}\) K J Partsch, as note 54 above, at 201
protect and provide rights for the individual (or groups of individuals or peoples).\textsuperscript{77} Suspending protection which is aimed at and directed to individual IP right holders therefore is not an act directed at the state to which these individuals belong but against the individuals themselves. The arguments above – which lead to a different result for obligations to protect IP right holders under international agreements on IP – do not apply here as the human right protection does not need a national implementation in order to provide rights to individuals. One can further point to the similar situation in Art.60 (5) VC which prohibits retaliation because of breaches of a treaty by suspending the protection of human rights following from the same treaty.

A justification for suspending IP protection could – from a human rights perspective – nevertheless follow from the provisions in the UDHR or ICESCR which allow for limitations to the rights granted. Under the UDHR, Art.29 (2) states that “in the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose (...) of meeting the just requirements of morality, public order and the general welfare in a democratic society.” Without any attempts for a comprehensive analysis and depending on the individual circumstances of the case at hand, the retaliating state could argue that the suspension is for general welfare purposes as it aims to coerce another state to stop harming the formers’ trade and economic interests. In a similar fashion also Art.4 ICESCR allows limitations “determined by law only in so far as this may be compatible with the nature of these rights and solely for the purpose of promoting the general welfare in a democratic society”. In both cases however it seems crucial that the limitation is one which must be determined by law.

This leads to the final section of this paper which addresses ways to implement an authorisation to suspend IP protection in the domestic IP laws of the retaliating state. From the discussion on human rights protection for IP right holders follows, that such implementation regimes should be regulated in the law of the country in question.

6) Practical Implementation of IP Cross-retaliation

The following section assesses different options for including a mechanism which implements an authorisation of the DSB to suspend obligations under TRIPS – and equally the withdrawal of IP protection under other international IP agreements on the basis of reprisal – in the national law of the retaliating state. A recent statement of a Brazilian official (commenting on the main difficulties of using TRIPS as a retaliatory mechanism in the US-Cotton case) shows that these questions of ‘how-to-do’ are often the ones which are most relevant in practice.\textsuperscript{78}

This section will first make some general observations on how to implement the suspension of international IP obligations and then move to evaluating specific options as to their feasibility and legality.

\textsuperscript{77} This follows not only from the individual rights such as Art.27 UDHR or Art.15 ICESCR but also for example from the Preamble of the Universal Declaration of Human Rights which finishes with the following sentence: “THE GENERAL ASSEMBLY proclaims THIS UNIVERSAL DECLARATION OF HUMAN RIGHTS as a common standard of achievement for all peoples and all nations, to the end that every individual and every organ of society, keeping this Declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the peoples of Member States themselves and among the peoples of territories under their jurisdiction.”

\textsuperscript{78} Inside US Trade, Brazil Cotton Cross-Retaliation Effort Faces Hurdles, 10/03/2006.
a) General Remarks

For all different options to implement the suspension of IP protection on the national level, there is a need to provide for a legal mechanism authorising the suspension of IP protection, the conditions for its application and the procedure in the respective national IP laws of the retaliating country. Further, the legal provisions authorising IP suspension should be of discretionary character so that no legal obligation for domestic authorities exist to utilise the system. Discretion should extend to the question if and when the mechanism is applied at all as well as the right holders targeted and the duration of suspension. This ensures the sovereignty of the country concerned with regard to its external relations and shields against claims of domestic competitors who might wish to see the system used against a particular foreign company in order to gain market share, etc.

Another general comment on the implementation is that if the retaliating WTO member wishes to avoid to ‘shoot itself in the foot’ and aims for positive welfare effects resulting from the suspension of IP protection, it should generally not focus on suspending trademark (or geographical indication) protection. One central objective of protecting trademarks is to ensure that consumers are able to identify the goods and services of one company and distinguish them from others. Trademark laws in this regard not only protect the reputation and goodwill of the trademark holder but have an important function in ensuring consumers’ choice and protection against deception. Suspending trademark protection will therefore hurt not only the trademark holder but – by enabling counterfeits with lower quality or distinct characteristics to be produced and sold on the domestic market – also consumers. Only in case trademark protection may stand in the way of effectively suspending e.g. patents on drugs in order to allow production and distribution of cheap generics, trademark suspension should be considered.

Finally, one must be aware that today’s products are often covered by not one but several IP rights which vest in different subject matter elements of the product. In order to generate positive welfare effects of making an otherwise IP-protected (and thus monopoly-priced product) available for the national market at a price based on free competition, several IP rights might have to be suspended. For pharmaceuticals, not only patent- but also data exclusivity protection (Art.39.3 TRIPS) might need to be suspended; for Movie-DVDs, copyright in the audiovisual- and the musical work and related rights (Art.14 TRIPS) vesting in the different performances are concerned; and for any innovative electronic device patents as well as copyright in any elements of software need to be considered.

A somewhat related general problem with the suspension of IP rights of nationals from the non-complying country lies in the fact that often it will be not so easy to determine whether the right holder is actually a ‘national’ of the non-complying country. Often multinational companies are involved who operate domestic branches. In other instances the foreign right holder might have granted an exclusive license for the domestic territory to a national of the retaliating country or third WTO member. Finally, several IP rights are held by joint ventures or in ‘patent pools’ which involve companies from various countries. To make matters even more complicated, Art.1 (3) TRIPS determines that nationals to whom protection under TRIPS must be afforded shall be determined by the eligibility criteria of the PC, RBC, RC and IPIC. In order to avoid targeting the own or third country nationals, retaliation should focus on cases of clear ownership. This however might limit the range of IP rights significantly. Adding to this, right holders might attempt to circumvent being targeted by formally transferring their IP rights to nationals of the retaliating state or third country nationals.

79 See A Subramanian & J Watal, as note 3 above, at 411
80 Compare also the respective remarks of the arbitrators in the EC – Bananas III (Ecuador) case, WT/DS27/ARB/ECU, para.140-147.
Different options have been suggested by several commentators as to how the suspension of IP protection could be realised in the national IP laws. In the following, the main options are presented and scrutinised as to their feasibility and the benefits and problems involved. Determinative factors for the appropriateness of the national implementation mechanism must primarily be the ability to comply with the provisions of the DSU (Art.22.3 & 22.4 in particular) while further taking into account the main issues of economic feasibility and compatibility with other international obligations (as discussed above).

b) Limiting the Eligibility for Protection:

IP protection could be suspended by amending provisions on the general eligibility of foreign nationals to rely on the domestic IP protection (often referred to as ‘qualifications for protection’). These qualifications traditionally exist in most national laws and usually specify that next to the own nationals and residents, also nationals from countries which are parties to shared International IP Agreements (such as TRIPS) can rely on the rights granted under the respective national IP law. The provisions on who qualifies for IP protection could be amended to incorporate the authority for a national office to temporary exclude certain right holders from the protection offered by the national law if this is done on the basis of and in conformity with a decision by the DSB of the WTO to suspend IP protection.

For this approach speaks that provisions on the general availability of national IP protection laws for foreign nationals are an obvious starting point for limiting this availability and could be tailored to address the special situation of suspending IP protection as a means of trade retaliation. Since such retaliation would necessarily include a denial of national treatment for the foreign right holders affected, one might even argue that the national provisions ensuring such treatment must be amended to prevent challenges of the national law in domestic courts.

While the typical provisions on eligibility or qualification for IP protection are of general nature, by transferring authority to national authorities to determine the further details of temporary suspension, they would allow discretion as to the individual right holders and protected subject matter to be targeted as well as to the period of suspension.

However, unless also the particular type and amount of exploitation can be regulated by the authorities (by relying on the powers of the qualifications provisions), the suspension will deny IP protection for certain products/services of the targeted right holders in total. This in turn allows everyone in the territory of the retaliating country to freely exploit the subject matter in question as she/he desires. A calculation of the amount of harm inflicted on the right holder as well as the “broader economic consequences” of the suspension (as required by Art.22.3 (d) DSU) and finally a determination of equivalence between the level of concessions/obligations suspended and the level of nullification/impairment of benefits, (as required by Art.22.4 DSU) will become impossible. The suspension might have an impact well beyond the level of equivalence and beyond what has been authorised by an arbitrator under Art.22.7 DSU. This in turn could lead to DSU proceedings against the retaliating state for violations of TRIPS not covered by the right to retaliate.

c) Suspending further Grants of IP rights

IP cross-retaliation could further be implemented by enacting a provision which allows national authorities to suspend further grants of IP rights for which a registration or application procedure needs to be followed. Potential candidates would be especially

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81 Ibid, at 412
patents; further possibly industrial designs or plant variety protection; theoretically also trademarks and geographical indications. For a prescribed period, national authorities, e.g. the patent office, could defer the granting of IP rights from (certain) right holders of the non-complying state. The authorisation to suspend granting IP rights could further allow the targeting of specific subject matter only – e.g. focusing on patent applications relating to certain classes of the Patent classification system. After the lapse of the prescribed period, the national authority would proceed with the granting – subject to the normal conditions to be met – of the IP rights in question.

An advantage of this mechanism is that temporarily suspending the initial grant of especially a patent might, in cases where information on the claimed invention is already available from patent databases abroad, allow domestic competitors to build upon the invention and used it for further testing or to related inventions – without any fear of litigation from the patent applicant. However, as soon as the suspension period ends, also the use of the patented invention must halt – unless the use is covered by an exception.

Against such an approach speaks the fact that delaying the granting of IP rights usually does not lead to positive welfare effects since alternative products are unlikely to be produced because of the uncertainty as to when the suspension period ends and alternative products would become illegal copies. The suspension period would thus merely delay the appearance of products based on the invention and thereby effectively deprive consumers of new innovative goods. This negative welfare effect is more likely with products involving high start up costs in their production and less likely with those where copying is fairly easy and can be performed in short time. Another problem is that especially regarding patented pharmaceuticals, the time of market entry is – due to lengthy approval periods – several years after the application of the patent so that the right holder might not even feel any negative effect of the initial suspension.

Finally, also a delay of granting IP rights involves difficulties in tailoring the level of suspension to meet the criteria of Art.22.3 (d) & 22.4 DSU: It will be rather tricky to determine the amount of harm inflicted on the right holder as well as the “broader economic consequences” of the suspension (as required by Art.22.3 (d) DSU) and finally to ensure equivalence between the level of concessions/obligations suspended and the level of nullification/impairment of benefits, (as required by Art.22.4 DSU). Even if the delay is tailored to specific right holders and specific subject matter applications/registrations, it will be very hard to predict the harm inflicted and the broader economic consequences involved.

Again, retaliating countries run the risk of exceeding what is authorised under the DSU.

d) Compulsory Licensing

Several commentators have suggested to implement IP cross retaliation by enacting special provisions on compulsory licensing.82 Under such a license a domestic authority authorises a particular use of a specific patented invention, industrial design, copyrighted work or other IP protected subject matter. The license could be tailored to allow utilisation of all IP rights vesting in a particular product whose production is to be authorised. It could further specify the exact quantity of the products to be produced under the license and the duration within which they must be produced and marketed. In case no private company would want to bear the risk of amortisation of the productions costs within the given time frame, the license contract could include the sale of the whole production to a state entity. Even if this leads to financial losses in the further resale, these should be compensated by the overall welfare effects of introducing new and innovative products to the national market at a low price. This

82 M Basso & E Beas, as note 3 above, at 19; A Subramanian & J Watal, as note 3 above, at 412
argument is especially valid in case of licensing the production of (otherwise patented) drugs and making them available via public health schemes for the poor.

Such a compulsory license must not comply with Art.13, 17, 30 or 31 TRIPS which provide significant limitations on the use of exceptions and compulsory licensing provisions in the national law. Since the retaliating country is in a position to suspend obligations under TRIPS, one of those obligations suspended would be the respective provisions of Art.13, 17, 30, 31 TRIPS as concerned in the individual case. This means that neither the licensee nor the retaliating state is under an obligation to pay any License fees to the right holder (instead, the authorising national authority could consider asking for a fee from the licensee).

The most important positive aspect however is that compulsory licensing is best suited for a pointed and tailored retaliation which actually lived up to the conditions of Artt.22.3 (d) & 22.4 DSU. Licenses which include provisions on the protected subject matter involved in the production, the quantity of products and the period of production and marketing allow for an sufficiently exact calculation of the amount of harm inflicted on the right holder as well as the “broader economic consequences” of the suspension (as required by Art.22.3 (d) DSU). They also allow the retaliating country to ensure equivalence between the level of concessions obligations suspended and the level of nullification impairment of benefits, (as required by Art.22.4 DSU). In this regard, they are the most feasible mechanism to implement the concept of suspending IP protection in line with the provisions of the DSU.

However, especially in case of licensing the production of pharmaceuticals, the retaliating state must ensure that its health authorities are in a position to grant marketing approval for the products in question as soon as possible within the license period. Otherwise the license would not lead to greater availability of (cheap) drugs and any positive welfare effects would be lost. This means that only drugs for which marketing approval has already been granted or can be granted within a very short period of time should be the target of retaliation.

e) Early Termination of Protection

The early termination of IP protection for those products which are reaching the end of their protection period has been another mechanism proposed to implement the suspension of IP protection. Due to the relatively long period of protection for copyrighted works (50 or even 70 years after the death of the author, Art.12 TRIPS) and the potentially infinitive protection for trademarks (see Art.18 TRIPS), products protected by patents (for 20 years from the date of application, Art.33 TRIPS) and industrial designs (for minimum 10 years, Art.26 (3) TRIPS) are the prime candidates for such an approach. As for the other mechanisms, such an approach would need to be embedded in the national IP legislation in form of provisions authorising a national authority to terminate certain IP rights for specifically chosen subject matter.

The main advantage here is that early termination of protection ensures a final and definite entry of the protected subject matter into the public domain. As a revival of IP protection does not occur, producers and users of the targeted subject matter enjoy certainty and security as to the continuous legality of their conduct. Especially for producers of copies or imitations of the targeted product, this certainty can be crucial in order to calculate chances for a return of the investments into the production.

However, the increasingly short life-cycles of (high tech) IP protected products makes targeting subject matter at the end of its period of protection less interesting from the

83 A Subramanian & J Watal, as note 3 above, at 412; M Basso & E Beas, as note 3 above, at 19
economic and technology-transfer point of view. In certain areas such as computer hard- and software or consumer electronics, technology for which IP rights have been granted about 15 to 19 years ago might often be of no interest or benefit for the domestic market. Nevertheless, in case of pharmaceutical products in particular, the early termination of the patent protection period (and thus the ability to produce generic versions) can offer important welfare effects for the domestic society.

The necessity to find a balanced level of retaliation which complies with Artt.22.3 & 22.4 DSU will further significantly limit the number potential targets available. Since the main idea is that no revival of IP protection occurs, only products where suspending the full remaining period of IP protection involves an equivalent impact as the nullification/impairment of benefits by the non-complying state can be chosen. Finally, the choice is even further marginalised by the fact that often distinct elements of a product are protected by different IP rights. Unless the normal protection period for all IP rights attached to the product in question expire within the period for which IP suspension is in line with the DSU, the unwanted effect of reviving protection will occur. In case of pharmaceuticals, only products for which patent- and test data protection expires within similar timeframes are a feasible target for retaliation.

f) Suspending IP Enforcement

Finally, it has been proposed to suspend the application of provisions enforcing IP rights. TRIPS is the first international IP Agreement which contains detailed provisions on the enforcement of IP rights (see Art.41-61 TRIPS), so that countries have a number of options as to which obligations on enforcement to suspend (general private law remedies, injunctive relief, provisional- and border measures, criminal procedures). A suspension of IP enforcement mechanisms would typically involve denying right holders access to judicial or administrative procedures which ensure enforcement.

To implement this form of retaliation, the national provisions regulating the individual enforcement tool should be amended to allow the suspension of the enforcement tool for the purpose of retaliation authorised by the DSB. While a retaliation request under Art.22.6 DSU could identify the right holders and subject matter concerned, the actual denial of access to or reliance on a specific enforcement tool could then be left to the judicial or administrative authority in charge. These authorities could then individually determine the degree of suspension of the enforcement tool in question in order to control the impact on the right holder. If, for example, the copyrights in musical works hold by a record-company of the non-complying country were identified as the general target in the retaliation request to the DB, the national authorities in charge could determine to what extend these right holders were still able to rely on injunctive relief, damages, etc in cases brought against (personal or commercial) copying of these recordings. If the total impact caused by the suspension had reached the level of equivalence of Art.22.4 DSU, national authorities would have to resume ‘granting’ the enforcement mechanisms.

This two-tied mechanism would allow for the level retaliation to be tailored to the equivalent amount of nullification/impairment of benefits caused by the non-complying state. It would further not involve complicated calculations of the level of equivalence ex ante but instead allow for an impact analysis on the basis of each individual case where enforcement against a

84 At the same time, targeting such outdated technology will most likely not involve any significant harm on the right holder / producer so that the non-compliant state has no incentive to change its laws.
85 Compare the examples given in subsection a) above.
86 A Subramanian & J Watal, as note 3 above, at 413; see also Inside US Trade, Brazil Cotton Cross-Retaliation Effort Faces Hurdles, 10/03/2006
specific action was sought. Another advantage is that none of the other international IP agreements contains obligations to provide for IP enforcement mechanisms. Therefore, a suspension of these types of obligations would – on the multilateral level – not interfere with distinct obligations following from other agreements. This is however not equally true for bilateral FTAs so that the retaliating country should keep any potentially relevant FTA obligations in mind.

However, the suspension of IP enforcement does not provide for any security or certainty on behalf of the potential domestic copiers of the identified IP protected subject matter. They would have to self assess whether their actions might already exceed the level of equivalence while not knowing how many other ‘copiers’ might add to the harm caused for the right holder. It would eventually lead to a race between different copiers to be first to copy and still fall under the suspension of enforcement. Courts or administrative offices in charge would bear the task of keeping track of all cases handled against copiers in order to ensure that they sufficiently calculate the amount of harm already inflicted as a basis for determining any further suspensions in their individual case at hand. These problems however could be partly countered by identifying and limiting the enforcement measures to be suspended in a way which allows only certain types of actions to be conducted without the availability of remedies (e.g. suspension of specific civil/criminal measures against (unintentional) end user infringement of copyrights).

Suspending IP enforcement would further raise potential problems with conflicting provisions of constitutional or international origin guaranteeing access to justice and related (human) rights. From this perspective, suspending especially judicial enforcement tools and remedies might be perceived as a violation of the rights available the targeted right holders under the national constitution or international treaties.

g) Freezing Royalties?

In particular in relation to options for cross-retaliation by Brazil against the US in the cotton case, commentators have suggested another way for implementing an authorised suspension: The retaliating country itself could “freeze the transfer of royalty fees to nationals of the non-complying country”. While this idea would allow for an exact measurement of the harm inflicted on the right holders and thus facilitate the determination of equivalence under Art.22.4 DSU, it has some serious shortcomings. Royalty payments are usually owed due to contractual arrangements in license agreements. Suspending IP protection however does not necessarily involve a right to break individual contractual obligations. And even if the royalty due is based on statutory licensing provisions as a part of IP law, a suspension might be difficult to be justified under TRIPS since it does not contain provisions on statutory licensing (which then could be suspended). The only option under which this idea seems feasible is to consider the freezing of statutory royalty payments for nationals from the non-complying state as part of suspending national treatment under Art.3 TRIPS.

7) Conclusions

This paper has attempted to conduct an examination regarding the economic feasibility, the legality under both WTO and international law and the practicality of implementing the idea for suspending obligation under TRIPS. From the analysis above it seems rather doubtful whether IP cross retaliation will be relied upon heavily in case the predictions for a “wave of

87 M Basso & E Beas, as note 3 above, at 19&20.
litigation88 after a potential failure of the Doha Round become true. For the time being, the main inhibiting factor may be that most potential plaintiffs which are likely to bring successful cases (against e.g. agricultural subsidies or antidumping measures) lack readily available national implementation regime for suspending TRIPS obligations. Carefully drafting such a regime (let alone passing an act through the necessary institutions) will take some time and expertise – countries which consider this option are well advised to start the sooner the better. The investigation of different implementation mechanisms in the last section above has shown that the key problem is to legalise a particular use of specific IP rights so that the level and effect of suspension can be measured to ensure equivalence under Art.22.4 DSU. No matter which way of implementation is selected, its effect should be that a national authority of the retaliating state effectively takes over the position of the right holder for the period of suspension. This would allow the necessary control over the retaliation and limit 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 the positive welfare effect which suspending IP protection might incur.

However, for quite a significant number of especially least developed WTO Members or those with particular small economies or insufficient technological or production capacities, relying on IP suspension is not going to function as the ‘compliance-inducing’ sword they may be looking for. If they lack the ability to copy, imitate or otherwise produce the products or services for which IP protection could be suspended, no real economic harm will be inflicted on the right holders from non-complying country. Compliance is unlikely to be facilitated. Positive welfare effects will equally not occur (unless the suspension leads to significant surges in imports from countries where the products are not under IP protection). The other key factor identified is market size and consumer demand. Since all goods produced or services offered under the suspension regime must remain for further utilisation or consumption in the domestic market, only countries whose markets are sufficiently attractive for right holders will be able to inflict economic loss and so induce compliance. Ideas for extending the impact to other WTO Members’ markets by a wide interpretation of international exhaustion conflict with Art.51 TRIPS. Overall, the limitations resulting from aspects of economic feasibility unfortunately affect those WTO Members the most which have the strongest need for an effective system of inducing compliance with WTO rules of their larger trading partners.

As to the legality of cross-retaliation under the rules of the DSU, the key point is the requirement for the retaliating state to substantiate that in all sectors and all agreements (in the meaning of Art.22.3 (f) and (g) DSU) where a violation occurred suspension is either not effective or not practicable. This places quite a burden on developing countries which may lack a mechanism for such an assessment. If effectiveness and practicality is found, an authorisation to suspend TRIPS obligations will only be granted to the extent that suspension under the same sector and same agreement is insufficient to reach the level of nullification and impairment suffered. Nevertheless, the arbitrators in EC – Bananas stressed that in cases of great imbalance in trade and economic power and especially if the retaliating country is highly dependent on imports from the non-complying country, considering in which sector of which agreement suspension would be potentially least harmful for the retaliating country suffices for an effectiveness determination to be consistent with Art.22.3 DSU.89

Also the importance attached to the broader economic aspects of nullified or impaired benefits under Art.22.3 (d) and its role for determining whether the “circumstances are serious enough” (Art.22.3 (c) DSU) should be pointed out again: The relative impact non-compliance

88 See Bridges Weekly Trade News Digest, as note 6 above.
89 WT/DS27/ARB/ECU, para.73
has on the retaliating country thus can play a key role in determining effectiveness, practicality and especially seriousness under Art.22.3 (c) DSU and be crucial for authorising cross retaliation. In short: A high importance of the nullified/impaired trade sectors then serves as a ‘justification’ for suspension of obligations (in other sectors or agreements) which where only made because of the expectation of trade benefits flowing from commitments which the other party is not complying with.

Conflicts with other international IP Agreements can be mastered under the doctrine of reprisal. In case the retaliating country is bound by TRIPS plus FTA provisions however, it must carefully consider the proportionality requirement and the need for exhausting remedies under the FTA’s dispute settlement system. Finally, also international, regional and national human rights provisions on the protection of (intellectual) property should be carefully examined and tested as to what extent they allow for a limitation of the rights provided.

As to the question whether the current DSU system should be modified with regard to issues of (IP) cross retaliation, the answer should depend largely on what is perceived as the main objective of the relevant provisions under the DSU. If one follows the arbitrators in the EC – Bananas III (Ecuador), inducing compliance is the desired result of suspending obligations under Art.22 DSU. Also Art.3.7 of the DSU states that in the absence of a solution mutually accepted by the parties, “the first objective of the dispute settlement mechanism is usually to secure the withdrawal of the measures concerned if they are found to be inconsistent with the provisions of the covered agreements”. In order to facilitate this objective, negotiations on amending the DSU provisions should also examine whether the strict hierarchy under Art.22.3 (a) – (c) DSU is necessary. From a compliance-inducing point of view, enlarging the options for cross-retaliation will increase the chances of meeting this objective.

Equally under the re-balancing idea, suspending obligations under TRIPS can be viewed as a proper mechanism to enforce the ‘great bargain’ of balancing reciprocal trade benefits on the level of individual trade disputes within the WTO. From this perspective, any form of cross-retaliation ensures the balance of interests and reciprocity of concessions as expressed in the outcomes of the Uruguay Round. Also from this perspective there is no reason to limit or prioritise retaliation to the same sector or agreement – instead, the reciprocity in concessions across the board of the Uruguay Round Results calls for the option of retaliation across the board of WTO Agreements in order to properly reflect and take account of the diversity of national trade interests involved.

One could therefore propose to amend Art.22.3 (a) – (c) DSU in order to abolish the hierarchy for choosing the sector and agreements under which retaliation is conducted. However, one should clearly keep in mind that these legal technicalities are of rather limited effect in cases of great asymmetry in market size, economic and trade power as well as political influence.