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**SUSPENDING IP OBLIGATIONS  
UNDER TRIPS:**

**A VIABLE ALTERNATIVE TO  
ENFORCE PREVAILING WTO  
RULINGS?**

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# Placing the Topic in WTO Context

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

# Placing the Topic in WTO Context

How does the DSU ensure compliance?

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

# Outline

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

# The *US – Gambling* Dispute

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

# The *US* – *Gambling* Dispute

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

# The *US – Gambling* Dispute

US move to modify its GATS commitments

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

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

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

# The *US – Gambling* Dispute

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



# The *US – Gambling* Dispute

## Impact on *US – Gambling* Dispute

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

# Rationale for IP Suspension

## 1) Inadequacy of Traditional Retaliation

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

# Rationale for IP Suspension

## 2) Ratio for Retaliating under TRI. –

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

# Requirements under the DSU

## Overview on Retaliation under the DSU:

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

# Requirements under the DSU

## **Cross-Retaliation under Art.22.3** requires:

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

# Requirements under the DSU

**In Practice**, this means:

- Effectively, the retaliating country must assess all sectors of each and every agreement where the non-complying country is in violation with WTO rules.
- It must offer reasons for non-practicality or, *alternatively*, non-effectiveness of suspending obligations in all these areas and further provide information relevant for determining 'seriousness'

# Requirements under the DSU

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

- *EC – Bananas III*: even if retaliation is both effective and practical *to some extent* in the same sectors and same agreements, the retaliating country can *still move on to suspending TRIPS obligations* insofar as **retaliation in the same sector/agreement is insufficient to equalise the level of harm suffered** by the non-complying country.

# Requirements under the DSU

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

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



# Conflicts with International Agreements

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

# Conflicts with International Agreements

Ways to achieve **coherence**?

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

# Conflicts with International Agreements

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

# Conflicts with International Agreements

## IP obligations under bilateral **FTAs**:

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

# Economic Feasibility

## Domestic Market Size

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

# Economic Feasibility

## Options to extend Economic Impact beyond Domestic Market

Exports of goods produced under Suspension:

→ If no IP protection applies in Importing Country

→ If Importing country considers production under IP suspension as **international exhaustion?**  
(see Art.6; Art.51 & fn.13; TRIPS)

→ In cases of multiple complainants which adopt a **joint enforcement strategy** to trade goods produced under suspension

# Economic Feasibility

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

- Could a WTO Member suspend protection for copyrighted movies/music; then offered online?
  - Difficulty of ensuring equivalence, Art. 22.1. How to determine the economic value of a download?
  - Would the country be held liable for further extent of exploitation by the users around the world?
  - Must it rely on TPMs or DRMs to avoid further copying/distribution of the copyrighted material?

# Economic Feasibility

## Further Determining Factors.

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



# Implementing IP Cross-retaliation

## General remarks:

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

# Implementing IP Cross-retaliation

Specific implementation mechanisms:

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

# Conclusions

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

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

Thank you for your attention

Suggestions, critique and remarks to

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