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Commentary: The International Intellectual Property Order Enters the 21st Century

Frederick M. Abbott*

ABSTRACT

This Commentary followed presentation of the first two articles in this volume at a meeting on the TRIPS Agreement. The commentator first reflects on the theme of Professor Oddi's article, and suggests that the TRIPS Agreement must be evaluated in the broad context of the Uruguay Round bargain. He observes that the potential economic impact of the TRIPS Agreement on global economic development is of central concern, and that much work remains to be done both in refining economic analysis of the Agreement, and in addressing developmental issues. The commentator then discusses renewed interest in the activities of WIPO, and he highlights various sets of issues raised by the TRIPS Agreement. These include issues relating to dispute settlement, implementation, nullification and impairment, and exhaustion/parallel importation.

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I. REMARKS ON THE PRESENTATION BY PROFESSOR ODDI

My comments begin with a few remarks concerning the issues raised by Professor Oddi.¹

From the outset of the Uruguay Round negotiations there was some degree of skepticism among trade specialists concerning the goals of the TRIPS Agreement.² Two central questions were whether the TRIPS Agreement might harm the economic interests of developing countries, and how the Agreement might take into account the potentially disparate interests of industrialized and developing countries. The developing countries ultimately accepted the TRIPS Agreement as part of a bargained-for-exchange, not because they concluded that the Agreement as a stand-alone matter was necessarily in their best interests. Now, what was the bargain?

In positive terms, the bargain included concessions on agricultural export subsidies by the European Union (EU), increased market access for tropical products, and special attention to developing country interests in a number of the Uruguay Round agreements (*e.g.*, in terms of transition arrangements). In somewhat more negative terms, it included express and implied promises by the United States to refrain from using unilateral measures against the developing countries in the intellectual property rights (IPRs) arena, provided that minimum

1. A. Samuel Oddi, *TRIPS—Natural Rights and a “Polite Form of Economic Imperialism,”* 29 VAND. J. TRANSNAT’L L. 415 (1996).

2. Marrakesh Agreement Establishing the World Trade Organization, Annex 1C: Agreement on Trade Related Aspects of Intellectual Property Rights, Apr. 15, 1994 [hereinafter TRIPS Agreement], reprinted in THE RESULTS OF THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS—THE LEGAL TEXTS 6-19, 365-403 (GATT Secretariat ed., 1994).

TRIPS conditions were met. Finally, there was the implicit threat that, without the TRIPS Agreement, the Uruguay Round would fail, and that might have had serious adverse economic consequences for developing countries. In talking with developing country negotiators in the field of agriculture, for example, one may find that they are not entirely satisfied with the agricultural concessions that were ultimately made—the EU concessions did not reach the level they had hoped for, and the United States did not press the EU as hard as it might have, so there may be some dissatisfaction with the terms of the bargain. Nevertheless, the TRIPS Agreement must be viewed in this broad context, and not as an isolated event.

It is also fairly well recognized that there was limited empirical data on which to base an economic analysis of the potential implications of the TRIPS Agreement. Trade specialists were uncertain during the Uruguay Round, and are uncertain now, as to what the economic effects of the TRIPS Agreement will be. Efforts of the U.S. government and industry were concentrated on demonstrating high levels of IPRs-related losses for U.S. enterprises. Studies such as the International Trade Commission report concluding that U.S. industries lost in the order of \$43 to \$61 billion in 1986 from IPRs misappropriations were not designed as scientific exercises, and they were not in any event intended to evaluate the potential impact of the TRIPS Agreement on global economic development.³ There has been an increasing attention to serious economic evaluation of the role of intellectual property in the international arena over the past four or five years.⁴ Carlos Braga at the World Bank, for example, is doing very good work in this area.⁵

The U.N. Transnational Corporations and Management Division has produced an intriguing study on whether or not

3. U.S. INT'L TRADE COMMISSION, FOREIGN PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND THE EFFECT ON U.S. INDUSTRY AND TRADE app. H-3 (1988).

4. See, e.g., Keith E. Maskus, *Trade-Related Intellectual Property Rights*, 52 EUR. ECON. 157 (1993).

5. See Carlos A. Primo Braga, *Trade-Related Intellectual Property Issues: The Uruguay Round Agreement and its Economic Implications* (Jan. 26-27, 1995) (unpublished paper presented to the World Bank Conference at the Uruguay Round and the Developing Economies, Washington, D.C.); Carlos A. Primo Braga and Carsten Fink, *The Economic Justification for the Grant of Intellectual Property Rights: Patterns of Convergence and Conflict*, in PUBLIC POLICY AND GLOBAL TECHNOLOGICAL INTEGRATION (Frederick M. Abbott & David J. Gerber eds., forthcoming 1996) [hereinafter PUBLIC POLICY].

protection of IPRs encourages foreign direct investment (FDI).⁶ This study concludes that there is little empirical evidence of a correlation between high levels of IPRs protection and high levels of FDI. The countries with the weakest levels of IPRs protection—the People's Republic of China, Taiwan, Brazil, Argentina, Thailand, etc.—over the past decade have routinely been the recipients of the largest net FDI inflows. There has been a significant correlation between the United States Trade Representative's (USTR) list of worst IPRs violators and the highest levels of U.S. foreign direct investment.

One should not overestimate the extent to which the TRIPS Agreement will have an immediate, dramatic effect on developing country practices. There are substantial transition periods. There may well be passive resistance on the part of developing countries to implementing changes. Some World Trade Organization (WTO) Members may implement regimes with respect to the imposition of IPRs-specific fees and taxes.⁷ The United States, EU, and Japan may find that implementation and compliance do not go as smoothly as they hope. There is still a developing country majority in the WTO, and there remains some resistance to the TRIPS program.

One of the most interesting developments over the past year is a renewed interest in the World Intellectual Property Organization (WIPO). Currently, there is under negotiation in WIPO a Treaty on the Settlement of Disputes Between States in the Field of Intellectual Property (WIPO Dispute Settlement Treaty).⁸ It is a fascinating exercise intended to provide an alternative forum for the settlement of intellectual property disputes. The surprising thing about it is that OECD countries, other than the United States, have been very much behind the negotiation of this new treaty. The EU has tendered detailed proposals. Some of the most serious issues at the moment concern the prospective relationship between WIPO dispute settlement and WTO dispute settlement; whether or not the

6. U.N. TRANSNAT'L CORP. & MGMT. DIV., U.N. DEP'T OF ECONOMICS & SOCIAL DEVELOPMENT, INTELLECTUAL PROPERTY RIGHTS AND FOREIGN DIRECT INVESTMENT, U.N. Doc. ST/CTC/SER.A/24, U.N. Sales No. E.93.II.A.10 (1993).

7. The author has discussed the legality of such measures under the TRIPS Agreement in Frederick M. Abbott, *The WTO TRIPS Agreement and Global Economic Development*, in PUBLIC POLICY, *supra* note 5.

8. For background information, see *Draft Treaty on the Settlement of Disputes Between States in the Field of Intellectual Property*, Int'l Bureau of WIPO, Comm. of Experts on the Settlement of Intellectual Property Disputes Between States, 5th Sess., May 10-21, paras. 1-2, at 1, WIPO Doc. SD/CE/V/2 (Apr. 8, 1993). More recently, see INT'L BUREAU OF WIPO, COMM. OF EXPERTS ON THE SETTLEMENT OF INTELLECTUAL PROPERTY DISPUTES BETWEEN STATES, 7th Sess., May 29-June 2, 1995, WIPO Doc. SD/CE/VII/8 (June 2, 1995).

initiation of proceedings in one forum will suspend initiation of proceedings in another, and so forth.⁹ The WIPO Dispute Settlement Treaty has considerable merit on substantive grounds. It is nevertheless interesting to consider the basis for the renewed interest in WIPO, since a major objective of the TRIPS Agreement was to move the center of IPRs gravity from WIPO to the WTO, where Members would have recourse to trade-based enforcement of IPRs.

There may be a number of reasons for the heightened level of interest in WIPO. One reason might be that developing countries are trying to redress the shift in the IPRs balance of power that the TRIPS Agreement represents. Perhaps, officials at national IPRs offices in the industrialized countries, the U.S. Patent and Trademark Office (PTO), the European Patent Office, etc., felt a bit excluded from the TRIPS Agreement process when the trade specialists suddenly had taken over the IPRs field. Now the IPRs specialists are beginning to reemerge, or at least wanting to reemerge, as the major players in the IPRs field. They may be attempting to move the center of gravity back across Geneva, from the WTO to WIPO.

There certainly is a recognition that the WIPO Secretariat, and WIPO Committees of Experts, are highly expert in the IPRs field, and that this expertise is of great value to the international community. There are a myriad of complex IPRs-related substantive issues to be addressed in multilateral legal instruments, and WIPO may be the best forum for IPRs-related negotiations. The WIPO Secretariat's role in administering multilateral conventions such as the Patent Cooperation Treaty has become increasingly important, and the WIPO Secretariat will continue to provide valuable technical expertise to developing countries. For all of these reasons, the renewed interest in WIPO is not so difficult to fathom.

I am sympathetic to some of Professor Oddi's concerns with respect to the objectives of the TRIPS Agreement, but I am not so skeptical as he, because I believe that there will be some positive economic value to the agreement for the developing countries, taken in its context.

9. For more detailed discussion, see Frederick M. Abbott, *WTO Dispute Settlement and the Agreement on Trade-Related Aspects of Intellectual Property Rights*, in *INTERNATIONAL TRADE LAW AND THE GATT-WTO DISPUTE SETTLEMENT SYSTEM* (Ernst-Ulrich Petersmann ed., forthcoming 1996).

II. BRIEF REFLECTIONS ON QUESTIONS RAISED BY THE TRIPS AGREEMENT

A. *Dispute Settlement*

There are a myriad of fascinating issues raised by the TRIPS Agreement in relation to dispute settlement: how past state practice in respect to WIPO-administered conventions will be taken into account in interpreting the Agreement; how national and regional court decisions will be treated; and so forth.¹⁰

The TRIPS Agreement requires all WTO Members to adequately enforce IPRs rules, and yet there is little in the TRIPS Agreement to specifically guide dispute settlement panels as to what it means, literally, to provide adequate enforcement.¹¹ The question is open whether a Member's claim may succeed based on a single failure to protect IPRs, or whether the failure must be systemic. Furthermore, if a Member must show a systemic failure, it remains to be determined what elements would go into demonstrating such a failure. With respect to whether a Member's intellectual property laws comply with TRIPS Agreement minimum standards, there is question as to what presumptions might be created by the adoption of a model law or the adoption of a law prepared in consultation with WIPO. What presumptions might be created if a Member's intellectual property laws have been favorably reviewed by the TRIPS Council? These are but a few of the many interesting questions relating to dispute settlement.

B. *Developmental Issues*

Regarding economic development, it is generally understood that there will be a near term rent transfer from South to North based on implementation of the TRIPS Agreement. Commercially valuable IPRs that are preponderantly owned by industrialized country enterprises have become more secure, and returns based on these more secure IPRs will increase over the near term. The OECD countries, of course, have argued that this pattern will be self-correcting over time: that technology will be more freely licensed; that developing countries will create more intellectual property and produce more IPRs-related goods and services; that developing countries will benefit; and, therefore, that the situation

10. See *id.* (discussing these issues in detail).

11. *Id.*

will correct itself. Professor Oddi¹² is obviously skeptical about the self-correcting features, and has suggested a number of ways that developing countries may go about changing the situation in their favor. This is probably the central set of issues raised by the TRIPS Agreement.¹³

C. Implementation Questions

There are also implementation questions, technical and otherwise. Dr. Wager discussed the "mailbox rule."¹⁴ Will it be adequately implemented? Will the EU challenge the United States with a number of the TRIPS-related complaints that it has been threatening? Will the WTO turn into a North-North TRIPS dispute settlement forum? The United States amended its Section 301 legislation to say that even if other countries are complying with the TRIPS Agreement, it may still impose trade sanctions on them for failing to reasonably protect intellectual property rights.¹⁵ This is a very unusual thing for the United States to have done. Presumably, it was done in order to say, "Well, the TRIPS Agreement does not cover everything, so we can still bring claims against you for things the TRIPS Agreement has not yet covered." But, this is still a bit of an inflammatory action in the context of the Uruguay Round bargain.

D. Nonviolation Nullification and Impairment and Market Access Rights

There are two truly open questions with respect to the TRIPS Agreement. First, there is the nonviolation nullification and impairment issue. For non-trade specialists this is very obscure terminology. It basically means that, in the WTO system, a Member can bring a claim against another Member even though the complained-against Member is complying with the Agreement, on the grounds that the complained-against action somehow deprives the complaining Member of benefits it expected to get when it entered into the Agreement.

There is considerable uncertainty as to whether market access rights in the field of IPRs are covered by the TRIPS Agreement. Toward the end of the Uruguay Round, a decision

12. Oddi, *supra* note 1.

13. The author's views are elaborated in Abbott, *supra* note 7.

14. See Adrian Otten & Hannu Wager, *Compliance with TRIPS: The Emerging World View*, 29 VAND. J. TRANSNAT'L L. 391 (1996).

15. 19 U.S.C. § 2411(d)(3)(B)(II) (1994).

was made by the EU and the United States that negotiations concerning market access in the audio-visual field (e.g., involving U.S. complaints against EU restrictions on film and television broadcasts) would take place in the General Agreement on Trade in Services (GATS) negotiating forum. If it is determined that market access rights are not covered by the TRIPS Agreement, the United States might nevertheless wish to complain that the rights of its nationals under the TRIPS Agreement are being nullified or impaired by EU market access restrictions. Such a complaint cannot presently be brought under the terms of the TRIPS Agreement, but this limitation may expire after five years.¹⁶

Professor Cornish has observed that intellectual property rights are basically negative rights.¹⁷ They generally permit IPRs holders to restrict activities in which others might engage. Historically, IPRs have not been positive rights. They have not granted market access. Governments exert considerable control over what can be done with speech, books, audio-visual products, etc. Governments may be reluctant to permit TRIPS to be used as a market access mechanism because of concern over cultural controls, national policy controls, security controls, and so on.

E. *The Open Question of Exhaustion*

The most interesting open question for trade specialists may be the exhaustion question. Article 6 of the TRIPS Agreement says that the Agreement says nothing about exhaustion. The TRIPS Agreement will be subject to a major review in five years. Perhaps the issue of exhaustion will be addressed at that time.

The ILA International Trade Law Committee has agreed to focus on the exhaustion/parallel imports question as a central research topic, and to attempt to formulate a proposal regarding it.¹⁸ Regarding this question, one point might be made here. IPRs specialists, with good reason, come to the exhaustion/parallel imports question from the standpoint of the territoriality of IPRs. That is a reasonable starting place; it is the way the IPRs system developed. Trade specialists tend to come at

16. TRIPS Agreement, *supra* note 2, arts. 64(2) & (3).

17. Remarks of Bill Cornish at the WIPO Headquarters meeting of the International Trade Law Committee of the International Law Association (June 1995).

18. Professor Abbott is the Co-Rapporteur for this committee, with responsibility for TRIPS subject matter. There is a substantial literature on the exhaustion/parallel imports question, and considerable case law in many jurisdictions. Several papers on this subject have already been prepared for the Committee. The brief remarks in this text do not begin to address this complex question, and are not so intended. They are made only by way of calling attention to work being carried out in another forum.

the exhaustion/parallel imports question from another perspective: that rules blocking the importation of products are nontariff barriers to trade, and that nontariff barriers are fundamentally inconsistent with the principles of the WTO, all other things being equal. The question for trade specialists is whether these nontariff barriers can be justified on a ground-up basis. IPRs specialists have suggested many reasons why rules permitting the blocking of parallel imports may serve valuable social welfare purposes. The question is one of economic analysis, of social welfare analysis, of determining whether or not there is a value to the territoriality of IPRs that overrides the free trade value. Trade specialists approach the question with skepticism: Rules blocking imports are inherently suspect. How can they be justified? This question will receive serious additional attention over the next few years.

