

# The Suspension of Intellectual Property Obligations Under TRIPS: A Proposal for Retaliating Against Technology-Exporting Countries in the World Trade Organization

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#### INTRODUCTION

Intellectual property exports represent a significant part of the U.S. economy. During the World Trade Organization's (WTO) Uruguay Round (1986–1994), the United States pushed for an international agreement that would require all WTO members to accept minimum standards of intellectual property (IP) protection.<sup>1</sup> The United States also advocated for a provision in the WTO's new dispute settlement agreement that would give broad leeway to retaliate against foreign governments—especially developing countries—that violate their new IP obligations.<sup>2</sup> The United States succeeded on both accounts, securing the adoption of the Agreement on Trade-Related Aspects of Intellectual Property

1. See, e.g., DANIEL GERVAIS, *THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS* 10, 16 (2d ed. 2003) (discussing U.S. proposals during the TRIPS negotiations).

2. See JOHN CROOME, *RESHAPING THE WORLD TRADING SYSTEM: A HISTORY OF THE URUGUAY ROUND* 323 (1995) (describing the view of cross-retaliation proponents that “[i]f, for example, one country failed to prevent counterfeiting of another’s products, and the offending country had few trademarked or patented products of its own, the country that was injured would have no effective means of hitting back unless allowed to withdraw concessions affecting goods or services, rather than intellectual property”); see also Andrew L. Stoler, *The WTO Dispute Settlement Process: Did the Negotiators Get What They Wanted?*, 3 *WORLD TRADE REV.* 99, 102–03 (2004). Developing countries agreed to the cross-retaliation provision in part to obtain market access concessions in other areas. See CROOME, *supra*.

Rights (known as the TRIPS Agreement)<sup>3</sup> and Article 22.3 in the Understanding on Rules and Procedures Governing the Settlement of Disputes (referred to as the Dispute Settlement Understanding or DSU).<sup>4</sup>

Article 22 of the DSU provides that a WTO member can retaliate against countries that violate their WTO obligations by suspending “concessions or other obligations”<sup>5</sup> otherwise owed to the violating country. For example, if a WTO member violates its obligations under the General Agreement on Tariffs and Trade<sup>6</sup> (GATT 1994), a country suffering a nullification or impairment of benefits may retaliate by suspending its own tariff concessions under the GATT. In addition to the GATT, WTO members have obligations under TRIPS and the General Agreement on Trade in Services (GATS),<sup>7</sup> among other agreements. Under Article 22.3 of the DSU, a country can retaliate under the same agreement that was the subject of the original trade dispute or, if the retaliating country meets certain requirements, under one of the other WTO agreements. Because the government can retaliate “across” different agreements, this remedy is referred to as “cross-retaliation.”<sup>8</sup> While the United States advocated

3. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994) [hereinafter TRIPS Agreement]. While the TRIPS Agreement does not go as far as other bilateral and multilateral intellectual property agreements, TRIPS remains of great importance because it is the only international IP agreement which (1) covers all major types of IP rights, (2) integrates the main provisions of other IP treaties, (3) includes detailed provisions on IP enforcement, and (4) requires more than 150 countries around the world to comply with the agreement or face a challenge in the WTO’s dispute settlement system. Henning Grosse Ruse-Khan, *A Pirate of the Caribbean? The Attractions of Suspending TRIPS Obligations*, 11 J. INT’L ECON. L. 313, 334 n.104 (2008).

4. Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994) [hereinafter DSU].

5. Note the difference between “concessions” and “other obligations.” “Concessions” include GATT tariff bindings, agricultural market access commitments, and GATS service commitments, while “other obligations” is a much broader category encompassing the hundreds of obligations embodied in the WTO agreements. See Steve Charnovitz, *Rethinking WTO Trade Sanctions*, 95 AM. J. INT’L L. 792, 820 (2001). The ability to request authorization from the Dispute Settlement Body to suspend concessions or other obligations is based on Article XXIII.2 of GATT 1947 (incorporated into GATT 1994). General Agreement on Tariffs and Trade art. XXIII.2, Oct. 30, 1947, 61 Stat. A-11, 55 U.N.T.S. 194 (“If the Contracting Parties consider that the circumstances are serious enough to justify such action, they may authorize a contracting party or parties to suspend the application to any other contracting party or parties of such concessions or other obligations under this Agreement as they determine to be appropriate in the circumstances.”); see Charnovitz, *supra*, at 792–93.

6. General Agreement on Tariffs and Trade, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994).

7. General Agreement on Trade in Services, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1B, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994) [hereinafter GATS].

8. Suspending TRIPS obligations can also arise if the original dispute involves TRIPS violation(s) and the retaliating state retaliates under the same TRIPS agreement. See DSU, *supra* note 4, art. 22.3(a), (b); see also discussion *infra* section I.B.

originally for cross-retaliation,<sup>9</sup> developing countries increasingly see cross-retaliation as a possible tool that they can use to pressure developed economies like the United States and the European Union (EU) into complying with their WTO obligations.

To date, the Dispute Settlement Body (“DSB”) has authorized the suspension of TRIPS obligations in only two disputes: *EC—Bananas III*<sup>10</sup> (Ecuador) in 2000 and *US—Gambling*<sup>11</sup> (Antigua) in 2007. Ecuador never suspended its TRIPS obligations and, instead, used the leverage to strike a favorable agreement with the European Communities (EC); Antigua has yet to suspend its TRIPS obligations and it does not appear that Antigua will do so (as discussed *infra* section II.B). Because no country has ever retaliated by suspending TRIPS obligations, it is not clear how a government would structure a regime of suspended TRIPS obligations and/or whether a country would ever actually implement such a regime.

At a general level, WTO authorization to retaliate frees the government from the need to ensure that its domestic laws comply with all WTO obligations. With respect to intellectual property, a retaliating government could, for example, amend its domestic copyright statute to stop providing national treatment—meaning treatment to nationals of other members that is no less favorable than the treatment provided to a country’s own citizens<sup>12</sup>—to foreign authors.<sup>13</sup> Alternatively, the government could stop providing methods for foreign right holders to enforce their IP rights domestically.<sup>14</sup> The retaliating government could also issue compulsory licenses on patented pharmaceuticals, allowing domestic companies to manufacture and sell generic versions of drugs still

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9. See, e.g., CROOME, *supra* note 2, at 135–36 (discussing how the United States “injected an ambitious proposal” in the TRIPS group negotiations in October 1987 that would allow cross-retaliation if a government did not meet its IP obligations); Stoler, *supra* note 2, at 103 (noting the U.S. objective of “gaining multilateral agreement on possible ‘cross-retaliation’” in dispute settlement negotiations and the fear that Brazil, India, and other developing countries “would ‘pay’ through their goods trade for their inability to properly implement obligations in the areas of intellectual property and services”). During TRIPS group negotiations, developed countries were particularly concerned about goods that “stole the copyright-protected content of products belonging to others: the leading example was the flourishing ‘pirate’ trade in audio and video cassettes offering unauthorized copies of musical performances and movies.” CROOME, *supra* note 2, at 133.

10. Decision by the Arbitrators, *European Communities—Regime for the Importation, Sale and Distribution of Bananas—Recourse to Arbitration by the European Communities Under Article 22.6 of the DSU*, WT/DS27/ARB/ECU (Mar. 24, 2000) [hereinafter *EC—Bananas III*].

11. Decision by the Arbitrator, *United States—Measures Affecting the Cross-Border Supply of Gambling and Betting Services—Recourse to Arbitration by the United States Under Article 22.6 of the DSU*, WT/DS285/ARB (Dec. 21, 2007) [hereinafter *US—Gambling*].

12. See TRIPS Agreement, *supra* note 3, art. 3.1.

13. See, e.g., Arvind Subramanian & Jayashree Watal, *Can TRIPS Serve as an Enforcement Device for Developing Countries in the WTO?*, 3 J. INT’L ECON. L. 403, 407 (2000) (suggesting that a developing country could suspend substantive IP rights as well as national treatment and Most Favored Nation obligations).

14. See *id.* at 410, 413.

under patent protection without the permission of the patent holder.<sup>15</sup> Similar compulsory licenses could be issued for the reproduction of *New York Times* bestselling books, Hollywood movies, Microsoft computer software, and so on. For technology-exporting countries like the United States, a regime of unauthorized compulsory licensing represents a serious economic threat.

This Note offers a proposal for implementing such a regime. Based on the specific obligations imposed by TRIPS and the numerous problems with retaliating against foreign IP right holders, this Note evaluates different options for how a country could retaliate. It then selects the specific TRIPS provisions that a country should suspend in order to create an IP retaliation regime that is lawful, narrowly circumscribed, and effective at inducing compliance. The ultimate goal is that a country never actually suspends any IP rights because the threat of IP retaliation is sufficiently credible that the violating state chooses to bring itself into compliance with its WTO obligations.

The Note proceeds in three parts. Part I explores the goals of WTO retaliation and explains how IP retaliation fits within these goals. It then discusses the sequence of steps required by Article 22.3 before a country can gain authorization to cross-retaliate. Part II addresses a number of difficult legal issues that will apply to any IP suspension regime. First, will cross-retaliation put the country in violation of separate copyright and patent treaties? Second, how will uncertainty about the length of the suspension period affect domestic interest in taking advantage of suspended IP rights? Third, does the implementation of a suspension regime (by amending domestic IP statutes and altering existing IP rights) amount to an expropriation of intangible property that may leave the foreign government subject to liability? For example, what might be the result if U.S. right holders sue a retaliating government in U.S. federal court and assert jurisdiction under the Foreign Sovereign Immunities Act? This Note attempts to provide an answer to each question.

Part III discusses alternative ways that a country could retaliate for each of the three major types of intellectual property: trademarks, patents, and copyrights. Each section begins with an overview of the TRIPS obligations for that specific type of IP right. These provisions provide the basis for a nearly infinite number of suspension combinations. The Note considers the benefits and drawbacks of different options.

The core of Part III presents a concrete proposal for how a retaliating government should treat each kind of IP right in a way that maximizes the regime's effectiveness and minimizes legal complications. Specifically, this Note argues that a country should: (1) not suspend trademarks or geographical indication obligations; (2) issue compulsory licenses for the production of patented pharmaceuticals and the use of other patented technologies, but suspend the TRIPS Article 31 provision that requires payment of "adequate

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15. See Brent Savoie, Note, *Thailand's Test: Compulsory Licensing in an Area of Epidemiologic Transition*, 48 VA. J. INT'L L. 211, 239-41 (2007).

remuneration”; and (3) suspend copyright obligations in order to issue compulsory licenses for the reproduction, distribution, and performance of copyrighted music, movies, and computer software.

This proposal is relevant to many of the WTO’s 153 members.<sup>16</sup> For developing countries, suspending U.S. and European IP rights offers a powerful stick in their trade with developed countries. In addition, any country that is a small export market for a violating state should qualify under Article 22.3 because retaliation under the GATT will not likely be “practicable or effective,” as discussed in Part I below. Even Brazil, a large export market, has threatened to cross-retaliate in *United States—Subsidies on Upland Cotton*.<sup>17</sup> Finally, any WTO member could seek to suspend TRIPS obligations if that country wins a dispute involving the TRIPS Agreement.<sup>18</sup> For example, the European Communities successfully challenged U.S. non-compliance with TRIPS copyright provisions in *US—Section 110(5) Copyright Act*;<sup>19</sup> from this dispute, the European Communities (hardly a developing economy) became eligible to seek DSB authorization to suspend concessions or other obligations under TRIPS.<sup>20</sup>

### I. RETALIATION UNDER ARTICLE 22 OF THE DSU

The WTO permits members to bring disputes within the WTO’s dispute settlement system to determine whether a member is in compliance with its WTO obligations. If a violation is found, and the violating state does not bring itself into compliance within a reasonable period of time and the parties are unable to negotiate mutually acceptable “compensation,” then Article 22 of the DSU allows a complaining party to “retaliate” by suspending “concessions or other obligations” owed to the violating state.<sup>21</sup> This retaliation serves at least

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16. See World Trade Org., Understanding the WTO: The Organization—Members and Observers (2008), [http://www.wto.org/English/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/English/thewto_e/whatis_e/tif_e/org6_e.htm) (last visited May 12, 2009).

17. See Daniel Pruzin, *Brazil Seeks Adoption of WTO Ruling on Cotton Subsidies; U.S. Expected to Appeal*, 25 Int’l Trade Rep. (BNA) 237 (2008). It is unclear whether a WTO arbitrator would grant Brazil this authorization, since Brazil is a large export market and may find it “practicable or effective” to retaliate under GATT or GATS. See *infra* note 34 and accompanying text. Brazil can argue that traditional retaliation (by raising tariffs on U.S. exports, particularly farm goods) would put little pressure on the United States to comply and/or that it is not “practicable” for a country to raise certain tariffs given the impact on domestic consumers or producers. See Daniel Pruzin, *Brazilian Farmers Eye Retaliatory Options if U.S. Fails To Comply with Cotton Ruling*, INT’L TRADE DAILY, June 17, 2004.

18. See WorldTradeLaw.net TRIPS Agreement Page, <http://www.worldtradelaw.net/dsc/database/trips.asp> (last visited Oct. 28, 2008) (listing all panel and Appellate Body reports and arbitration awards in WTO disputes involving the TRIPS Agreement); see also Anne Hiaring, *Fish or Fowl? The Nature of WTO Dispute Resolution Under TRIPS*, 12 ANN. SURV. INT’L & COMP. L. 269, 278–280 (2006) (summarizing, as of 2006, the fourteen IP disputes lodged by the United States, the four lodged by the European Communities, and the three lodged by Canada, Brazil, and Australia; the parties litigated five at the panel level and settled the other disputes).

19. *United States—Section 110(5) of the US Copyright Act*, WT/DS160/R (June 15, 2000), available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds160\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds160_e.htm).

20. *Id.*

21. See DSU, *supra* note 4, art. 22.2 (“If the Member concerned fails to bring the measure found to be inconsistent with a covered agreement into compliance therewith or otherwise comply with the

three possible functions: (1) to re-equilibrate the balance of concessions between the two countries; (2) to provide reparations for the state and inhabitants injured by the non-compliance; and (3) to induce the non-complying country to comply with its WTO obligations.<sup>22</sup> Inducing compliance is perhaps the primary objective because the text of the DSU, agreed to by all WTO members, provides that suspending trade concessions (to re-equilibrate the balance of concessions) and compensation (to provide reparations) are inferior to full compliance.<sup>23</sup>

#### A. HOW SUSPENDING TRIPS OBLIGATIONS CAN INDUCE COMPLIANCE

The suspension of IP obligations has the potential to effectively induce compliance. To do this, the retaliating state wants to place maximum pressure on domestic export interests within the violating state, which will then lobby their government to bring itself into compliance.<sup>24</sup> In the United States, IP right holders are highly sensitive to any precedent that jeopardizes their exclusive rights. The Motion Picture Association of America (MPAA) and the Recording Industry Association of America (RIAA) have monitored *US—Gambling* and have lobbied both Congress and the Office of the U.S. Trade Representative

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recommendations and rulings within the reasonable period of time . . . [and] [i]f no satisfactory compensation has been agreed within 20 days after the date of expiry of the reasonable period of time, any party having invoked the dispute settlement procedures may request authorization from the DSB to suspend the application to the Member concerned of concessions or other obligations under the covered agreements.”).

22. Charnovitz, *supra* note 5, at 822.

23. See DSU, *supra* note 4, art. 22.1 (“Compensation and the suspension of concessions or other obligations are *temporary* measures . . . [and neither] is preferred to *full implementation* of a recommendation to bring a measure into conformity with the covered agreements.” (emphasis added)). The DSU also provides that “prompt compliance” with DSB recommendations and rulings is “essential” to the effective resolution of disputes. *Id.*; Ruse-Khan, *supra* note 3, at 328. Finally, all of the Article 22.6 arbitration awards support the view that the purpose of authorizing the suspension of concessions or other obligations is to induce compliance. Ruse-Khan, *supra* note 3, at 328 & n.80 (quoting the Article 22.6 arbitral awards). *But see* Alan Yanovich & Tania Voon, *Completing the Analysis in WTO Appeals: The Practice and its Limitations*, 9 J. INT’L ECON. L. 933, 941 (2006) (noting that the United States argued in *Canada—Certain Measures Concerning Periodicals* that the primary goal of WTO dispute settlement is to resolve disputes); Ruse-Khan, *supra* note 3, at 326 (discussing authors who favor the re-balancing theory).

24. See Jide Nzelibe, *The Credibility Imperative: The Political Dynamics of Retaliation in the World Trade Organization’s Dispute Resolution Mechanism*, 6 THEORETICAL INQUIRIES L. 215, 223 (2005). Compare Marco Bronckers & Naboth van den Broek, *Financial Compensation in the WTO: Improving the Remedies of WTO Dispute Settlement*, 8 J. INT’L ECON. L. 101, 105 (2005) (arguing that while Ecuador’s proposed retaliation, which included “allow[ing] local wine producers to sell their red wine as ‘Bordeaux’ . . . [and] permit[ing] local music pirates to sell unauthorized copies of some European hit recordings . . . might have created annoyance amongst French wine producers and certain European hit artists particularly popular in Ecuador, it was unlikely to result in much political pressure on the EC”), with Subramanian & Watal, *supra* note 13, at 406–07 (“TRIPS confers enormous benefits to the large, research-based pharmaceutical and life sciences companies, to software and other IT companies, to the famous film and music producers, to performers and distributors, and to owners of famous marks and other IP owners based in developed countries . . . these were the very companies that strongly and effectively lobbied for the successful conclusion of the TRIPS Agreement. Axiomatically, withdrawing TRIPS benefits must be costly and painful for them.”).

(USTR) to settle the dispute before Antigua takes any action against their members' copyrights.<sup>25</sup> The MPAA argues that the real economic harm from any suspension would vastly exceed the \$21 million in annual retaliation authorized by the Article 22.6 arbitration.<sup>26</sup> The MPAA also expressed concerns about movies uploaded to the Internet and the resulting suppression of DVD sales in the United States and around the world, "costing an incalculable amount of money to the [motion picture] industry . . . ."<sup>27</sup> More generally, the industry groups must be concerned about any precedent allowing legal, unauthorized "piracy."<sup>28</sup>

#### B. PROCESS FOR GAINING AUTHORIZATION TO SUSPEND TRIPS OBLIGATIONS

Article 22.3 of the DSU provides a clear analytical sequence that a country must follow before seeking DSB authorization to cross-retaliate. First, a country must "seek to suspend concessions or other obligations" under the same "sector(s)" as the violation.<sup>29</sup> Second, "if that party considers that it is not practicable or effective" to suspend under the same sector, the country may seek to suspend in a different sector under the same agreement.<sup>30</sup> Finally, "if that party considers that it is not practicable or effective" to suspend in different sectors under the same agreement, and if "the circumstances are serious enough," the country may seek to cross-retaliate by suspending under a different agreement.<sup>31</sup>

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25. See Kate Ackley, *Tiny Antigua Roils U.S. IP*, ROLL CALL: VESTED INTERESTS, Nov. 7, 2007, at 9–10.

26. See *id.* at 10.

27. Jamie Strawbridge, *U.S. Compensation Package for WTO Members Unlikely To Satisfy Antigua*, INSIDE U.S. TRADE, Aug. 24, 2007, at 1.

28. The fact that illegal copies of copyrighted works are widely available on the Internet and through pirated DVDs limits, to some degree, the pressure that cross-retaliation can exert on IP right holders.

29. DSU, *supra* note 4, art. 22.3(a) ("[T]he general principle is that the complaining party should first seek to suspend concessions or other obligations with respect to the same sector(s) as that in which the panel or Appellate Body has found a violation or other nullification or impairment."). "Sector" means: "(i) with respect to goods, all goods; (ii) with respect to services, a principal sector as identified in the current 'Services Sectoral Classification List' which identifies [eleven] such sectors; (iii) with respect to trade-related intellectual property rights, each of the categories of intellectual property rights covered in Section 1, or Section 2, or Section 3, or Section 4, or Section 5, or Section 6, or Section 7 of Part II, or the obligations under Part III, or Part IV of the Agreement on TRIPS." *Id.* art. 22.3(f). "Agreement" means: (1) for goods, all of the Annex 1A agreements (including, but not limited to GATT, as well as the plurilateral agreements for members who are parties to those optional agreements); (2) for services, GATS; and (3) for intellectual property rights, TRIPS. See *id.* art. 22.3(g).

30. *Id.* art. 22.3(b).

31. *Id.* art. 22.3(c). Article 22.5 of the DSU provides that the DSB "shall not authorize suspension of concessions or other obligations if a covered agreement prohibits such suspension." *Id.* art. 22.5. There are four WTO agreements that cannot be suspended: (1) the Agreement Establishing the WTO; (2) the Agreement on Implementation of Article VI of GATT 1994 (Antidumping Agreement); (3) the Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation); and (4) the DSU. See Charnovitz, *supra* note 5, at 821. Because of these provisions, a retaliating country cannot demand, for example, that the violating state's voting rights be suspended or that the country lose access to the dispute settlement system. *Id.* In addition, Article 22.7 of the optional Agreement on Government Procurement explicitly prohibits any cross-retaliation between it and any of the Annex 1 agreements.

Within this general framework, Article 22.3 contains significant textual ambiguities. The *EC—Bananas III* and *US—Gambling* arbitration decisions discuss the arbitrators'<sup>32</sup> interpretations of the various provisions in some detail.<sup>33</sup> For present purposes, it is sufficient to point out some of the more interesting issues. First, what does it mean for retaliation under the same sector or same agreement to not be “practicable or effective”?<sup>34</sup> Importantly, the text requires only that retaliation not be practicable *or* effective, so either alone is sufficient.<sup>35</sup> Second, Article 22.3 is based on whether “that party considers” that each stage in the sequence is met.<sup>36</sup> The Ecuador and Antigua arbitrators agreed that this language leaves a certain “margin of appreciation” to the retaliating country to make factual determinations about the effectiveness of different methods of retaliation.<sup>37</sup> At what point will an arbitral panel step in and reject the retaliating

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See Agreement on Government Procurement, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 4(b), 1915 U.N.T.S. 103; Charnovitz, *supra* note 5, at 821 n.242.

32. According to the DSU, “arbitrators for an Article 22.6 arbitration shall be . . . the original panel, if members are available, or . . . an arbitrator [either an individual or a group] appointed by the Director-General . . .” DSU, *supra* note 4, art. 22.6 & n.15.

33. There is no single approach for interpreting ambiguities in the WTO agreements. Article 3.2 of the DSU provides that the dispute settlement system of the WTO serves to “clarify the existing provisions of the [covered agreements] in accordance with customary rules of interpretation of public international law,” a reference to the Vienna Convention on the Law of Treaties. See Andrew D. Mitchell, *The Legal Basis for Using Principles in WTO Disputes*, 10 J. INT’L ECON. L. 795, 807 (2007). The three major theoretical approaches to treaty interpretation are: (1) subjective interpretation, based on the intent of the parties when they adopted the text; (2) textualism, based on the objective, plain meaning of the text; and (3) teleological interpretation, based on advancing the object and purpose of the treaty. See *id.* at 803–06, 814–15.

34. The *EC—Bananas III* arbitrators determined that 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” and that “‘effective’ means that the suspension “is strong and has the desired result, namely to induce compliance by the Member,” *EC—Bananas III*, *supra* note 10, ¶¶ 70, 72, and the Antigua arbitrators agreed that “these interpretations provide a useful starting point” for judging Antigua’s request. *US—Gambling*, *supra* note 11, ¶¶ 4.29–4.30; see also René Guilherme S. Medrado, *Renegotiating Remedies in the WTO: A Multilateral Approach*, 22 WIS. INT’L L.J. 323, 363–67 (2004) (noting that “‘effective’ . . . seems to add a qualitative dimension to the level of countermeasures that a complaining Member may take”). In the *US—Gambling* decision, the arbitrators agreed that suspending under GATS or GATT would not be practicable or effective because: (1) retaliating in tourism, transportation, telecommunications and/or financial services would likely lead to disruptions and higher costs for Antiguan citizens (if U.S. service operators are forced out); (2) measures protecting foreign investors may make it difficult in practice to take and enforce action against U.S. service suppliers; and (3) U.S. exports to Antigua are limited (compared to other export markets). See *US—Gambling*, *supra* note 11, ¶¶ 4.66–4.100.

35. Note that it was theoretically possible for Antigua to suspend only under GATS, since its total importation of services from the United States was approximately \$102 million per year—primarily in transportation, travel, insurance, and telecommunication—and it was authorized to suspend only \$21 million per year. See Shannad M. Basheer, Turning TRIPS on Its Head: “Cross Retaliation” at the WTO 13 (June 10, 2008) (unpublished manuscript), available at <http://ssrn.com/abstract=1093284>. Antigua initially considered suspending telecom services, but the volume was only \$5.03 million per year and its citizens may not have been able to find alternative suppliers. *Id.*

36. DSU, *supra* note 4, art. 22.3(b)–(c).

37. *US—Gambling*, *supra* note 11, ¶¶ 4.15–4.18; see also Peter Lindsay, Note, *The Ambiguity of GATT Article XXI: Subtle Success or Rampant Failure?*, 52 DUKE L.J. 1277, 1288–91, 1290 n.58,

country's sovereign determination?<sup>38</sup>

The decision to cross-retaliate is not entirely subjective. Article 22.3 contains a mandatory chapeau—providing that the retaliating state “shall apply the following principles and procedures”<sup>39</sup>—which requires that states “seek” authorization from the DSB to suspend in a different sector or under a different agreement.<sup>40</sup> Nevertheless, the Article 22.6 arbitrators have developed what appears to be a relatively *relaxed* standard of review under which they have approved the only two requests to suspend TRIPS obligations that reached the arbitration stage.<sup>41</sup>

### C. BENEFIT OF SUSPENDING TRIPS OBLIGATIONS

A number of reasons favor retaliation under TRIPS instead of, for example, raising tariffs on exports from the violating state under GATT or suspending service concessions under GATS. First, raising tariffs on imports is unlikely to prove effective because most developing countries represent only a small export market for developed countries. Thus, the pain inflicted on the scofflaw state and its domestic producers will be minimal.

Second, suspending IP obligations can create real benefits for the retaliating state. With retaliation under GATT, the higher tariffs imposed may get passed on to domestic consumers in the form of higher prices on goods or higher input prices for domestic producers. Retaliating under GATS, whereby the government may suspend market-access concessions to foreign service providers, may

1291 n.60 (2003) (comparing “if that party considers” in Article 22.3 of the DSU to the national security exception in Article XXI of GATT—“[n]othing in this Agreement shall be construed . . . to prevent any contracting party from taking any action which *it considers* necessary for the protection of its essential security interests”—and concluding that Article 22.3 provides less deference to the WTO member than Article XXI (emphasis added)).

38. See *US—Gambling*, *supra* note 11, ¶ 4.18.

39. DSU, *supra* note 4, art. 22.3. In addition, Article 22.3(d) provides:

In applying the [Article 22.3(a)–(c) principles], that party shall [also] take into account: (i) the trade in the sector or under the agreement under which the panel or Appellate Body has found a violation or other nullification or impairment, and the importance of such trade to that party; [and] (ii) the broader economic elements related to the nullification or impairment and the broader economic consequences of the suspension of concessions or other obligations.

*Id.* art. 22.3(d).

40. See *id.* art. 22.3(b)–(c); Lindsay, *supra* note 37, at 1290–91.

41. Both the *US—Gambling* and *EU—Bananas III* arbitrations agree on a two-prong test for granting a request to cross-retaliate: (1) “whether the complaining party in question has considered the necessary facts objectively” and (2) “whether, on the basis of these facts, it could *plausibly* arrive at the conclusion that it was not practicable or effective to seek suspension within the same sector under the same agreements, or only under another agreement provided that the circumstances were serious enough.” See *US—Gambling*, *supra* note 11, ¶ 4.18 (emphasis added); *EC—Bananas III*, *supra* note 10, ¶ 52. The Arbitrator did not further define what is required to have “considered” the necessary facts, but it is worth noting that Antigua was unable to produce data and statistics on many relevant facts; the Arbitrator forgave this inability given that a country of Antigua’s size may not maintain such detailed records. See *US—Gambling*, *supra* note 11, ¶ 4.100. It awaits to be seen whether a 22.6 Arbitrator would be as quick to permit a country like Brazil to cross-retaliate when there is a stronger case that retaliation in GATT and/or GATS would be practicable or effective.

force domestic consumers to scramble for new service providers. Unlike these alternatives, retaliation under TRIPS can be welfare-*enhancing*.<sup>42</sup> For example, a national health service could legally produce and widely distribute generic drugs to fight AIDS and a host of other diseases, to the great benefit of their population, without paying the remuneration otherwise required under TRIPS.<sup>43</sup>

Third, the mere threat of cross-retaliation can have real benefits. The more credible the threat, the more benefit to the retaliating state.<sup>44</sup> A DSB authorization to suspend TRIPS obligations is especially potent because the DSU provides no set time limit within which the retaliating government must exercise its authorization; unless the violating state brings itself into compliance or the parties reach a mutually acceptable solution, an authorized country can hold this chip in its pocket until it can be used most effectively.<sup>45</sup> The threat is meaningless, however, if developed, technology-exporting countries do not believe that developing countries are willing and able to take concrete actions against their politically and economically powerful domestic IP interests.

## II. RISKS ASSOCIATED WITH SUSPENDING TRIPS OBLIGATIONS AND REASONS WHY THESE RISKS SHOULD NOT PREVENT CROSS-RETALIATION

Cross-retaliation presents many complicated and unanswered issues. Three of the most common issues involve: (1) the risk that suspending TRIPS obligations will place a retaliating country in violation of concurrent obligations under the Berne Convention and the Paris Convention; (2) the risks created by the unpredictable length of the suspension period; and (3) the risk that implementing a regime of suspended TRIPS obligations amounts to a taking of foreign property without just compensation.<sup>46</sup>

### A. RISK OF VIOLATING CONCURRENT OBLIGATIONS UNDER WIPO CONVENTIONS

The World Intellectual Property Organization (WIPO), an agency of the

42. Subramanian & Watal, *supra* note 13, at 405.

43. *See infra* section III.B.

44. James McCall Smith provides an interesting discussion of how Ecuador used the threat of suspending TRIPS obligations to obtain gains from the European Union, including EU modification of its banana import regime for Ecuadorian banana exports and (possibly) EU support for rescheduling \$880 million of Ecuador's external Paris Club debt. *See* James McCall Smith, *Compliance Bargaining in the WTO: Ecuador and the Bananas Dispute*, in *NEGOTIATING TRADE: DEVELOPING COUNTRIES IN THE WTO AND NAFTA* 257, 272 (John S. Odell ed., 2006) (pointing out that five of the ten Paris Club participants were EU members and the Paris Club creditors agreed to this debt reduction only four months after Ecuador published its list of IP retaliation targets); *see also* Matthew S. Dunne III, Note, *Redefining Power Orientation: A Reassessment of Jackson's Paradigm in Light of Asymmetries of Power, Negotiation, and Compliance in the GATT/WTO Dispute Settlement System*, 34 *LAW & POL'Y INT'L BUS.* 277, 307 (2002) (describing Ecuador's gains regarding the EC banana regime and subsequent setbacks).

45. Article 22 of the DSU states that the suspension is supposed to be "temporary," but "temporary" could be a considerable period of time because the term is not defined. *See* Xin Zhang, *Implementation of the WTO Agreements: Framework and Reform*, 23 *Nw. J. INT'L L. & BUS.* 383, 424 (2003).

46. *See* Subramanian & Watal, *supra* note 13, at 408–15.

United Nations, administers a number of important international IP treaties that exist concurrently with TRIPS.<sup>47</sup> Since the nineteenth century, the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention or Berne) has established basic standards for international copyright protection.<sup>48</sup> The Paris Convention for the Protection of Industrial Property (Paris Convention or Paris) has harmonized the patent and trademark fields.<sup>49</sup> TRIPS references and incorporates aspects of these pre-TRIPS conventions, but TRIPS does not occupy the field; Article 2.2 of TRIPS expressly provides that “[n]othing 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.”<sup>50</sup> A retaliating government that suspends TRIPS obligations, therefore, risks violating concurrent obligations that the country may owe to other contracting parties under the Berne and Paris Conventions.

As a threshold issue, this risk only arises when both the retaliating and the violating country are parties to the relevant convention. The memberships of the Berne Convention, the Paris Convention, and TRIPS are not identical, and the obligations under Berne and Paris are not the same as under TRIPS, even if there is overlap. In many instances, however, the retaliating state will owe independent obligations under these conventions and may violate these obligations by suspending TRIPS obligations.<sup>51</sup>

On the other hand, as pointed out by Joost Pauwelyn, former Legal Affairs

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47. See World Intellectual Prop. Org., WIPO-Administered Treaties, <http://www.wipo.int/treaties/en/> (last visited Nov. 25, 2008).

48. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, S. TREATY Doc. No. 99-27, 828 U.N.T.S. 221 (as revised at Paris on July 24, 1971 and amended in 1979) [hereinafter Berne Convention]; see World Intellectual Prop. Org., Summary of the Berne Convention for the Protection of Literary and Artistic Works (1886), [http://www.wipo.int/treaties/en/ip/berne/summary\\_berne.html](http://www.wipo.int/treaties/en/ip/berne/summary_berne.html) (last visited Oct. 30, 2008).

49. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305 (as last revised at the Stockholm Revision Conference) [hereinafter Paris Convention]; see World Intellectual Prop. Org., Summary of the Paris Convention for the Protection of Industrial Property (1983), [http://www.wipo.int/treaties/en/ip/paris/summary\\_paris.html](http://www.wipo.int/treaties/en/ip/paris/summary_paris.html) (last visited Oct. 30, 2008).

50. TRIPS Agreement, *supra* note 3, art. 2.2. The Rome Convention provides certain rights to performers, producers, and broadcasting organizations not provided by the Berne Convention. See International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, Oct. 26, 1961, 496 U.N.T.S. 43; World Intellectual Prop. Org., Summary of the Rome Convention, [http://www.wipo.int/treaties/en/ip/rome/summary\\_rome.html](http://www.wipo.int/treaties/en/ip/rome/summary_rome.html) (last visited April 4, 2009). The Treaty on Intellectual Property in Respect of Integrated Circuits addresses IP protection for the “layout-designs (topographies)” of “integrated circuit[s].” See Treaty on Intellectual Property in Respect of Integrated Circuits art. 3(1), *opened for signature* May 26, 1989, 28 I.L.M. 1477 (1989) (treaty not in force), *available at* [http://www.wipo.int/treaties/en/ip/washington/trtdocs\\_wo011.html](http://www.wipo.int/treaties/en/ip/washington/trtdocs_wo011.html).

51. The WTO has 153 members, the Berne Convention has 164 contracting parties, and the Paris Convention has 173 contracting parties. World Trade Org., *supra* note 16; World Intellectual Prop. Org., Contracting Parties: Berne Convention (Oct. 15, 2008), <http://www.wipo.int/export/sites/www/treaties/en/documents/pdf/berne.pdf>; World Intellectual Prop. Org., Contracting Parties: Paris Convention (Oct. 15, 2008), <http://www.wipo.int/export/sites/www/treaties/en/documents/pdf/paris.pdf>.

Officer for the WTO, the Article 2.2 non-derogation provision quoted above only applies to Parts I to IV of TRIPS.<sup>52</sup> TRIPS provides for the settlement of disputes under the DSU, however, in Part V.<sup>53</sup> As Pauwelyn explains, “Any rights or obligations that WTO members may obtain under *Parts V to VII* do not necessarily have to give way to WIPO conventions, at least not pursuant to Art. 2.2.”<sup>54</sup> Pauwelyn further explains that there is no inherent hierarchy between a treaty and an act of an international organization (like the DSB).<sup>55</sup> Under the Vienna Convention on the Law of Treaties and customary international law, therefore, the “latest expression of state intent, *in casu*, the DSB authorisation [to suspend TRIPS obligations], must prevail.”<sup>56</sup> One scholar has also argued that in the *US—Gambling* dispute, the United States was “legally estopped” from asserting any infringement of its rights under the Berne Convention because, by agreeing to the DSU and TRIPS, the United States agreed to the withdrawal of Berne obligations when authorized by the DSB.<sup>57</sup> Finally, even if the retaliating government violates the Berne or Paris Conventions, these treaties lack effective enforcement mechanisms.<sup>58</sup>

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52. See JOOST PAUWELYN, *CONFLICT OF NORMS IN PUBLIC INTERNATIONAL LAW: HOW WTO LAW RELATES TO OTHER RULES OF INTERNATIONAL LAW* 346–47 (2003); see also *EC—Bananas III*, *supra* note 10, ¶ 150; Erich Vranes, *Cross Retaliation Under GATS and TRIPS—An Optimal Enforcement Device for Developing Countries?*, in *THE BANANA DISPUTE: AN ECONOMIC AND LEGAL ANALYSIS* 113, 122–27 (Fritz Breuss et al. eds., 2003).

53. Under Article 64 of TRIPS, the DSU governs disputes under TRIPS. See TRIPS Agreement, *supra* note 3, art. 64.1 (“The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding shall apply to consultations and the settlement of disputes under this Agreement except as otherwise specifically provided herein.”).

54. PAUWELYN, *supra* note 52, at 346 (citing *EC—Bananas III*, *supra* note 10, ¶ 149); see also Ruse-Khan, *supra* note 3, at 360 & n.213 (“The arbitrators argue convincingly that the obligation under Article 2(2) TRIPS concerning the continued application of Berne and Paris Convention provisions does not prohibit IP suspension even if it might conflict with other international agreements: In short, Article 2(2) TRIPS does not extend to dispute settlement in relation to TRIPS.”).

55. PAUWELYN, *supra* note 52, at 346–47.

56. *Id.* at 347; see also Ruse-Khan, *supra* note 3, at 360 n.215 (“[N]either Article 2(2) TRIPS nor Article 30 or 60 of the Vienna Convention on the Law of Treaties stand in the way of suspending overlapping international obligations.”).

57. Int’l Ctr. for Trade and Sustainable Dev., *As Antigua Considers Cross-Retaliation Against US, WIPO Official Creates Stir*, BRIDGES WEEKLY, Jan. 23, 2008, <http://ictsd.net/i/news/bridgesweekly/6612/> (quoting Frederick Abbott, Professor of International Law, Florida State University).

58. The Paris and Berne Conventions contain provisions allowing one party to bring a dispute to the International Court of Justice (ICJ), but a party can declare that “it does not consider itself bound” by the provision when it signs the convention or deposits its instrument of ratification or accession. Berne Convention, *supra* note 48, art. 33(2); Paris Convention, *supra* note 49, art. 28(2); see also Graeme B. Dinwoodie, *Some Remarks on the Limits of Harmonization*, 5 J. MARSHALL REV. INTELL. PROP. L. 596, 597 (2006); Allen Z. Hertz, *Shaping the Trident: Intellectual Property Under NAFTA, Investment Protection Agreements and at the World Trade Organization*, 23 CAN.-U.S. L.J. 261, 268–76 (1997). While the threat of ICJ jurisdiction should not affect the ability of a country to cross-retaliate, the ability to suspend IP rights may be affected by “TRIPS-plus” commitments contained in free trade agreements. See, e.g., Ruse-Khan, *supra* note 3, at 360–61 (discussing Antigua’s obligation to comply with the WIPO Copyright Treaty’s “making available right for placing copyrighted material online” contained in an Economic Partnership Agreement between the EC and Caribbean Forum (CARIFO-

## B. RISKS ARISING FROM THE TEMPORARY NATURE OF SUSPENDED TRIPS OBLIGATIONS

Article 22.8 of the DSU provides that:

The suspension of concessions or other obligations shall be temporary and shall only be applied until such time as the measure found to be inconsistent with a covered agreement has been removed, or the Member that must implement recommendations or rulings provides a solution to the nullification or impairment of benefits, or a mutually satisfactory solution is reached.<sup>59</sup>

Any regime of suspended IP rights must therefore cease if and when: (1) the violating state comes into compliance; (2) the violating state remedies the nullification or impairment of benefits; or (3) the parties reach a mutually satisfactory solution.<sup>60</sup> Uncertainty about when or even if any of these three events will occur creates risks for any business that seeks to take advantage of suspended IP obligations.

Because of this uncertainty, the IP suspension regime will likely be most attractive to domestic producers who already work with the type of IP in question (for example, any company that pays royalties for a license to use a patented invention). To the extent that the suspension regime creates wholly new business opportunities, prospective entrants to these new markets will need to carefully weigh all the costs of starting a new business against the risk that the investments will not pay off if the government terminates the suspension regime.<sup>61</sup>

This acute problem arose recently in the *US—Gambling* dispute. After Antigua successfully challenged U.S. laws restricting Internet gambling under the GATS at both the panel and Appellate Body level, the United States announced that it would “comply” by withdrawing its gambling service commitments,<sup>62</sup> as permitted under Article XXI of GATS.<sup>63</sup> Antigua requested arbitration on the amount of “compensatory adjustment” offered by the United States, but then suspended its arbitration request in the hopes of negotiating a mutually satisfactory solution to all aspects of the dispute.<sup>64</sup> The United States cannot modify its service schedule until it reaches a compensation agreement with Antigua or the

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RUM) states and cautioning that “the retaliating country must carefully assess whether . . . any dispute settlement procedures set out in [a free trade agreement] must be exhausted”).

59. DSU, *supra* note 4, art. 22.8.

60. See *EC—Bananas III*, *supra* note 10, ¶ 165.

61. See Vranes, *supra* note 52, at 128.

62. Ruse-Khan, *supra* note 3, at 321 n.48.

63. See Daniel Pruzin, *Antigua, Costa Rica Request Arbitration on Compensation in U.S. Gambling Dispute*, INT’L TRADE DAILY, Jan. 30, 2008. Article XXI of GATS provides that “[a] Member . . . may modify or withdraw any commitment in its Schedule, at any time after three years have elapsed from the date on which that commitment entered into force, in accordance with the provisions of this Article.” GATS, *supra* note 7, art. XXI(1)(a).

64. Telephone Interview with Thomas H. Fine, Director, Services Trade Negotiations, Office of the U.S. Trade Representative, in Wash., D.C. (Oct. 22, 2008).

matter is decided by arbitration.<sup>65</sup> It appears, however, that the United States can and will legally modify its service schedule, at which point Antigua will lose the right to cross-retaliate because under Article 22.8 of the DSU, the U.S. measure “found to be inconsistent with a covered agreement” will have “been removed.”<sup>66</sup>

One author commented that “[i]t seems doubtful that the WTO will find that such a retroactive change represents compliance; the U.S. ‘solution’, [sic] if accepted, would radically devalue the worth of scheduled commitments.”<sup>67</sup> While the right to unilaterally withdraw concessions does devalue their worth, the United States has the right under WTO law to withdraw concessions made to other members in return for providing compensation to members affected by the withdrawal. The United States has already reached compensation agreements with the European Union, Costa Rica, Japan, Australia, and Canada.<sup>68</sup> Antigua’s right to suspend TRIPS obligations, however, appears to remain in effect until the United States completes the GATS procedure and validly modifies its service schedule.<sup>69</sup>

Given the risk that the violating state can bring itself into compliance at any time, retaliating countries should focus on granting suspension opportunities to domestic producers in existing markets whenever possible. Governments should be wary of creating whole new industries that are economically viable only with the competitive advantage that comes from using the suspended IP rights of others. Domestic producers, in turn, must be fully informed about these risks and must consent to the government’s right to withdraw the IP advantage at any time.

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65. See GATS, *supra* note 7, art. XXI(4)(a) (“The modifying Member may not modify or withdraw its commitment until it has made compensatory adjustments in conformity with the findings of the arbitration.”). If the United States modifies its service schedule without reaching a compensation agreement or complying with the arbitration’s findings, then Antigua can “modify or withdraw substantially equivalent benefits.” GATS, *supra* note 7, art. XXI(4)(b). This means that Antigua would be left to withdraw its own service commitments. See Ruse-Khan, *supra* note 3, at 327. Because the GATS Article XXI procedure will eventually permit the United States to modify its service schedule, Antigua cannot maintain its ability to cross-retaliate indefinitely by refusing to agree to a compensation agreement. See *id.* at 323–24. Another question is whether Antigua would be able to suspend IP obligations and thus cross-retaliate under Article XXI of GATS. See *id.* at 322–23 (arguing that “the Article XXI GATS mechanism is limited to suspending benefits deriving from the GATS and its schedules only and does not allow withdrawing obligations from any other WTO Agreement”).

66. See Ruse-Khan, *supra* note 3, at 323–24. Ruse-Khan explains the analytic sequence as follows: the United States modifies its service schedule in accordance with GATS Article XXI; the modified service commitments become part of binding WTO law; U.S. domestic law now complies with U.S. GATS commitments; Antigua now cannot rely on the DSB’s adoption of the “Compliance Panel” report because there is no longer a continued inconsistency between the U.S. domestic law and WTO law. *Id.*

67. Gary Hufbauer & Sherry Stephenson, *Services Trade: Past Liberalization and Future Challenges*, 10 J. INT’L ECON. L. 605, 616 (2007).

68. Daniel Pruzin, *Costa Rica Drops Gambling Arbitration Claim in WTO Against U.S. After Compensation Deal*, INT’L TRADE DAILY, Mar. 3, 2008; Erik Wasson, *Antigua Awaits U.S. Offer on Gambling, May Seize IPR This Month*, INSIDE US TRADE, Mar. 21, 2008.

69. See Ruse-Khan, *supra* note 3, at 324.

## C. TAKING PRIVATE RIGHTS AND THE RISK OF EXPROPRIATION LIABILITY

The TRIPS Agreement sets minimum standards for domestic IP regimes. Under Article 1 of TRIPS, “[m]embers shall be free to determine the appropriate method of implementing the provisions of this agreement within their own legal system and practice.”<sup>70</sup> This allows TRIPS to be either self-executing (where permitted by the member’s constitution) or non-self-executing (requiring the WTO member to implement the provisions in domestic legislation).<sup>71</sup> Individual IP rights are generally protected under domestic IP statutes. Where TRIPS permits certain flexibility in the domestic statutes, these flexibilities exist only to the extent that a country has chosen to implement the provision in domestic legislation.<sup>72</sup>

To implement a plan for cross-retaliation, the country’s legislature may need to amend its domestic IP statutes.<sup>73</sup> By amending its domestic statute(s), the retaliating country is purposefully targeting existing IP right holders.<sup>74</sup> If the country planned for this possibility when it first drafted its IP statute, then the legislature could have: (1) provided explicitly for the possibility that any and all IP rights issued are subject to a possible WTO-authorized suspension regime,<sup>75</sup> and (2) empowered the executive branch to implement the IP suspension regime without having to face the normal political difficulties involved in passing

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70. TRIPS Agreement, *supra* note 3, art. 1.1.

71. 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* 415, 419 n.20 (Ernst-Urlich Petersmann ed., 1997).

72. See Harold C. Wegner, *Injunctive Relief: A Charming Betsy Boomerang*, 4 *Nw. J. Tech. & Intell. Prop.* 156, 166 (2006). For example, a study of eleven Latin American and Caribbean countries demonstrates that most governments in the study have enacted domestic statutes that permit compulsory licensing, as permitted under TRIPS. See Maria Auxiliadora Oliveira et al., *Has the Implementation of the TRIPS Agreement in Latin America and the Caribbean Produced Intellectual Property Legislation that Favours Public Health?*, 82 *BULL. WHO* 815, 816 (2004). Specifically, the study found that: (1) all countries except Panama included permission for compulsory licensing in their domestic legislation; (2) Andean countries (Argentina, Bolivia, Columbia, Ecuador, Peru, and Venezuela) allow parallel importing, Mexico does not, and Brazil only permits it after a compulsory license has been issued; and (3) only Brazil and the Dominican Republic permit the early working of a patent (allowing use of patented technology before the original patent expires so that companies can complete procedures and tests necessary to register a generic product when the patent expires). See *id.* at 815.

73. Without new legislation, a country may be able to compel licensing of pharmaceutical patents, among other options. See Oliveira et al., *supra* note 72, at 818–19 (finding that all countries in the study of Latin American and Caribbean countries already permit compulsory licensing in certain circumstances); Frederick M. Abbott, “Cross-Retaliation” in TRIPS: Issues of Law and Practice, PowerPoint Presentation at the ICTSD Roundtable on Cross-Retaliation in TRIPS and GATS: Options for Developing Countries (Oct. 17, 2008), available at <http://ictsd.net/downloads/2008/10/abbott-cross-retaliation-in-trips.ppt>.

74. In contrast, when a country retaliates under GATT, exporters in the violating state can choose to stop exporting to the retaliating country. See Tuan N. Samahon, Note, *TRIPS Copyright Dispute Settlement After the Transition and Moratorium: Nonviolation and Situation Complaints Against Developing Countries*, 31 *LAW & POL’Y INT’L BUS.* 1051, 1072 (2000).

75. This would help protect the government against legal challenges. Subramanian & Watal, *supra* note 13, at 415 & n.30.

major laws through a legislature.<sup>76</sup>

This should not pose a problem because TRIPS and the other WTO agreements do not prohibit a country from amending its domestic statutes.<sup>77</sup> However, modifying domestic law may be more difficult for countries that amended their *constitutions* to fulfill their TRIPS obligations.<sup>78</sup> In addition, when the DSB authorizes a country to retaliate, the retaliating state retains the right to determine *how* to implement that authorization.<sup>79</sup> The Article 22.6 arbitrators and the DSB have no right under the DSU to dictate how to implement the authorization (other than by setting the authorized level of suspension).<sup>80</sup> Finally, within a country that seeks to suspend foreign IP rights, the legislature may be presumed to support the plan.<sup>81</sup>

Like Antigua, future countries that seek to retaliate against the United States will nevertheless face significant political and legal challenges.<sup>82</sup> Politically, these countries can point to the United States' own history of suspending the IP rights of foreign nationals (albeit in the context of war). Legally, these countries can take certain precautions to minimize the risk of liability in U.S. courts. A short discussion of each issue is presented below.

### 1. The U.S. History of Suspending IP Rights of Enemies in Wartime

The United States has a long and fascinating history of “expropriating” certain copyright, patent, and trademark rights of wartime enemies. During World War I, Congress passed the Trading With the Enemy Act, which permit-

76. See Maristela Basso & Edson Beas, *Cross-Retaliation Through TRIPS in the Cotton Dispute?*, 9 BRIDGES 19, 20 (2005); see also Subramanian & Watal, *supra* note 13, at 415 (expressing surprise that, as of 2000, “not one developing country has provided for [cross-retaliation] in its domestic IP legislation”).

77. Subramanian & Watal, *supra* note 13, at 415 & n.30.

78. See Fact Sheet, Inst. for Agric. & Trade Policy, Trade and Global Governance Program, Strengthening Compliance at the WTO: Cross-Retaliation in WTO Disputes 2 (Ben Lilliston ed., Sept. 2006), available at <http://www.tradeobservatory.org/index.cfm?refid=89107>.

79. See Subramanian & Watal, *supra* note 13, at 411 n.24 (suggesting that, because international law is self-executing in Ecuador, the authority to retaliate in TRIPS by partially or completely revoking IP rights “already exists” before the retaliating country makes any changes to domestic law).

80. See DSU, *supra* note 4, at art. 22.7 (“The arbitrator acting pursuant to paragraph 6 shall not examine the nature of the concessions or other obligations to be suspended but shall determine whether the level of such suspension is equivalent to the level of nullification or impairment.”). Both the Ecuador and Antigua arbitrators make this point. See *US—Gambling*, *supra* note 11, ¶ 5.9; *EC—Bananas III*, *supra* note 10, ¶ 57.

81. Nevertheless, a country may still wish to rewrite domestic legislation to provide an *executive* official with the ability to revoke or suspend IP rights without having to request further authorization from the legislature. See Fact Sheet, Inst. for Agric. & Trade Policy, *supra* note 78, at 2.

82. As the Ecuador arbitrators commented:

We are aware that the implementation of the suspension of certain TRIPS obligations may give rise to legal difficulties or conflicts within the domestic legal system of the Member so authorized (and perhaps even of the Member(s) affected by the suspension). The resolution of such difficulties is of course a matter entirely within the prerogatives of the Member requesting authorization.

*EC—Bananas III*, *supra* note 10, ¶ 158.

ted the seizure of copyrights, patents, and trademarks held by right holders from enemy states.<sup>83</sup> To accomplish the seizures, the Office of the Alien Property Custodian in the Department of Justice “issued numerous vesting orders pursuant to which enemy copyrights were seized” and under these vesting orders, the United States “issue[d] licenses to U.S. citizens to use and publish copyrighted works of enemy authors.”<sup>84</sup> The United States also seized Bayer’s “Bayer” and “Aspirin” trademarks in 1917 and assigned the trademarks to an American company; Bayer only regained the exclusive right to use the Bayer name and Bayer-Cross logo by buying part of the American trademark holder Sterling Winthrop, Inc. in 1994 for \$1 billion.<sup>85</sup>

By the end of World War II, the Alien Property Custodian had issued vesting orders for more than 185,000 works, thereby permitting “the exploitation of musical works such as Puccini operas, books such as *Mein Kampf* [sic] and Goebbels’s diaries, and films such as *The Blue Angel*,” in addition to 3200 foreign scientific periodicals useful for the war effort.<sup>86</sup> From the licenses issued under the vesting orders, the U.S. Treasury earned \$5 million in royalties.<sup>87</sup> The United States returned title to some copyrights after the war and returned other rights under a 1962 law but excluded wartime works by the German and Japanese governments from restoration in the 1994 GATT implementing legislation.<sup>88</sup>

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83. The Act provides that:

If the President shall so require any money or other property including (but not thereby limiting the generality of the above) patents, copyrights, applications therefor, and rights to apply for the same, trade marks, chooses in action, and rights and claims of every character and description owing or belonging to or held for, by, on account of, or on behalf of, or for the benefit of, an enemy or ally of enemy not holding a license granted by the President hereunder, which the President after investigation shall determine is so owing or so belongs or is so held, shall be conveyed, transferred, assigned, delivered, or paid over to the Alien Property Custodian, or the same may be seized by the Alien Property Custodian; and all property thus acquired shall be held, administered and disposed of as elsewhere provided in this Act.

50 U.S.C. app. § 7(c) (2000).

84. Posting of William Patry to The Patry Copyright Blog, *The Anschluss and Expropriation of Jewish Copyrights in Europe*, <http://williampatry.blogspot.com/search?q=anschluss> (Mar. 12, 2008, 7:38 EST).

85. See KLAUS JENNEWEIN, *INTELLECTUAL PROPERTY MANAGEMENT: THE ROLE OF TECHNOLOGY-BRANDS IN THE APPROPRIATION OF TECHNOLOGICAL INNOVATION* 34–53 (2005) (providing an extensive discussion of the history of the Bayer Aspirin trademark during the twentieth century); Hertz, *supra* note 58, at 276; Brian Milner, *Bayer Plans To Be Big Headache for Drug Firms*, *GLOBE & MAIL*, Jan. 13, 1995, at B1.

86. See Posting of William Patry to the Patry Copyright Blog, *supra* note 84; see also Paul V. Myron, *The Work of the Alien Property Custodian*, 11 *L. & CONTEMP. PROBS.* 76, 83–85 (1945). The United Kingdom adopted a similar 1939 law called the Trading with the Enemy Act under which enemy-owned trademarks were vested and assigned by the Custodian of Enemy Property. See Hertz, *supra* note 58, at 276.

87. See Posting of William Patry to the Patry Copyright Blog, *supra* note 84.

88. *Id.*; See 17 U.S.C. § 104A(a)(2) (2006) (“Any work in which the copyright was ever owned or administered by the Alien Property Custodian and in which the restored copyright would be owned by a government or instrumentality thereof, is not a restored work.”).

## 2. The Risk of Expropriation Liability in U.S. Courts

U.S. right holders subject to IP suspension may sue the retaliating government in U.S. federal court<sup>89</sup> and attempt to hold the foreign government liable for damages caused by its suspension of domestic IP rights.<sup>90</sup> Specifically, plaintiffs may allege that the foreign act constitutes an expropriation or taking of private (intellectual) property without any payment of compensation.<sup>91</sup> Plaintiffs will likely face challenges, however, with securing jurisdiction over the retaliating state and the act of state doctrine.<sup>92</sup>

Since 1952, the United States has followed the “restrictive” theory of sovereign immunity, which grants jurisdictional immunity to a foreign state for its “public” or “sovereign” acts but denies immunity for the foreign state’s “private” or “commercial” acts.<sup>93</sup> Congress codified this “commercial activity” exception to sovereign immunity in § 1605(a)(2) of the Foreign Sovereign Immunities Act of 1976 (FSIA), which remains the only source of subject matter jurisdiction over a foreign sovereign in U.S. courts.<sup>94</sup> Under the FSIA’s default rule, a foreign state is immune from jurisdiction in U.S. courts, and the burden falls on the plaintiffs to show that one of the exceptions to immunity applies.<sup>95</sup>

Cross-retaliation arguably implicates two FSIA provisions. First, the “takings” exception to sovereign immunity in § 1605(a)(3) provides jurisdiction for cases “in which rights in property taken *in violation of international law* are in issue . . . .”<sup>96</sup> TRIPS retaliation should not fall within this exception because it is not “in violation of international law” to retaliate under the WTO’s authorization, based on treaty provisions agreed to by both states.

Second, under the “commercial activity” exception in § 1605(a)(2), a plaintiff can obtain jurisdiction over a foreign state in any case “in which the action is

89. The parties could also agree to settle the dispute through international arbitration.

90. Individuals and companies exercising rights under the suspended TRIPS obligation(s) may also be subject to liability.

91. Pieter Kuyper, the WTO’s Director of Legal Affairs in 2001, commented during the Uruguay Round that “[i]t is barely imaginable that violations of this [TRIPS] agreement would be remedied by a selective suspension of certain intellectual property rights in respect of nationals of a particular state” because this remedy “is too close to a *discriminatory confiscation* of property to be easily acceptable.” See Charnovitz, *supra* note 5, at 821 (emphasis added).

92. The expropriation or taking may also violate an applicable investment protection agreement; NAFTA, the Energy Charter Treaty, bilateral investment treaties (BITs), and foreign investment protection agreements (FIPAs) all include intellectual property rights, implicitly or explicitly, within the definition of “investment.” Hertz, *supra* note 58, at 261–62. Such an agreement may have a separate system of dispute settlement. See *id.* at 267 (discussing NAFTA provisions for dispute settlement through arbitration).

93. See *Victory Transp., Inc. v. Comisaria Gen.*, 336 F.2d 354 (2d Cir. 1964) (discussing the evolving U.S. views on foreign sovereign immunity).

94. *Permanent Mission of India to the United Nations v. City of New York*, 127 S. Ct. 2352, 2355 (2007); see *The Foreign Sovereign Immunities Act of 1976*, 28 U.S.C. §§ 1602–1611 (2006).

95. See 28 U.S.C. § 1604 (2006) (providing immunity from the jurisdiction of U.S. federal and state courts *except* as provided in sections 1605 to 1607).

96. *Id.* § 1605(a)(3) (emphasis added).

based upon . . . an act outside the territory of the United States in connection with a commercial activity of the foreign state elsewhere and that act causes a direct effect in the United States.”<sup>97</sup> Cross-retaliation could possibly fit within this exception if, for example, the foreign state amended its patent statute in order to issue compulsory licenses and then engaged in the buying and selling of generic drugs produced under the licenses.<sup>98</sup> While a full analysis is beyond the scope of this Note, a U.S. court may treat the statutory amendment and issuance of compulsory licenses as “decidedly sovereign act[s]” that support immunity, even if the state engages in subsequent commercial transactions involving the IP right.<sup>99</sup>

If a court exercises jurisdiction over the foreign state, the act of state doctrine may still help the foreign state avoid liability.<sup>100</sup> The act of state doctrine, applied in the United States since at least the late nineteenth century, provides that “[e]very sovereign state is bound to respect the independence of every other sovereign state, and the courts of one country will not sit in judgment on the acts of the government of another, done within its own territory.”<sup>101</sup> In *Banco Nacional de Cuba v. Sabbatino*, a seminal case arising after Cuba passed a law nationalizing (expropriating) property in which American nationals held an interest, the Supreme Court stated that “the [judicial branch] will not examine the validity of a taking of property within its own territory by a foreign sovereign government . . . .”<sup>102</sup> With the Second Hickenlooper Amendment to the Foreign Assistance Act of 1964,<sup>103</sup> Congress prevented application of the act of state doctrine in certain circumstances, but the amendment does not apply when the “act of a foreign state is not contrary to international law . . . .”<sup>104</sup> During cross-retaliation, the retaliating government is not acting contrary to international law because international law expressly permits the retaliation.

While the FSIA and the act of state doctrine limit the risk of U.S. jurisdiction and liability, the foreign state can nevertheless take steps to further protect itself against claims asserting a direct or indirect expropriation or “regulatory taking.”<sup>105</sup> Specifically, the retaliating state can: (1) limit the duration of the

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97. *Id.* § 1605(a)(2).

98. More likely, domestic producers would be the ones to engage in the commercial activity.

99. *See, e.g.*, *Garb v. Republic of Poland*, 440 F.3d 579, 586–88 (2d Cir. 2006) (holding that Poland’s expropriation of property was a “decidedly sovereign act” supporting immunity, even though the expropriation was connected to some degree to Poland subsequently managing and selling the expropriated property); *cf.* 44B AM. JUR. 2D *International Law* § 144 (2008) (“A foreign government’s expropriation of property is a public, rather than a commercial, act for purposes of the expropriation exception to foreign sovereign immunity under the FSIA.”).

100. A full discussion of this doctrine is beyond the scope of this Note.

101. *Underhill v. Hernandez*, 168 U.S. 250, 252 (1897).

102. *Banco Nacional de Cuba v. Sabbatino*, 376 U.S. 398, 428 (1964).

103. 22 U.S.C. § 2370 (2006).

104. *Id.* § 2370(e)(2) (emphasis added); *see also* MARK W. JANIS & JOHN E. NOYES, *CASES AND COMMENTARY ON INTERNATIONAL LAW* 869 (3d ed. 2006).

105. *See* Stephan W. Schill, *Tearing Down the Great Wall: The New Generation Investment Treaties of the People’s Republic of China*, 15 *CARDOZO J. INT’L & COMP. L.* 73, 107–08 (2007) (noting that

suspension; (2) permit the right holder to continue to use the IP right (just without the right to use exclusively), so the right retains some value; (3) suspend only some of the exclusive rights that come with IP protection; (4) limit the number of third-party users; and (5) use the IP rights for public purposes, like producing generic medicines.<sup>106</sup> The retaliating state should also guard against claims under general international law that the foreign act is arbitrary or discriminatory.<sup>107</sup> As discussed in section III.C, the retaliating state should not arbitrarily target particular right holders.<sup>108</sup> By determining ownership of an IP right as of a certain date, the retaliating state can also guard against IP right holders transferring ownership to non-nationals outside the violating state solely to avoid the IP suspension regime.<sup>109</sup>

### III. A PROPOSAL FOR HOW TO RETALIATE UNDER TRIPS

The TRIPS Agreement imposes affirmative obligations on member states to bring their domestic statutes into compliance with substantive, minimum IP standards.<sup>110</sup> TRIPS includes seventy-three articles, including many articles

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expropriation covers “direct expropriations or nationalizations that involve the transfer of title from the foreign investor to the State or a third-party” and “so-called indirect, creeping, or de facto expropriations, involving state measures that do not interfere with the owner’s title as such, but negatively affect the property’s substance or void the owner’s control of it”). An analogous situation occurs with “regulatory takings” cases when the U.S. state or federal government passes a law that significantly diminishes the value of individual property rights; courts do not treat the act as a “taking” under the Fifth Amendment to the U.S. Constitution (which would entitle the owner to “just compensation”) unless the property loses 100 percent of its economic value. *See* *Lucas v. S.C. Coastal Comm’n*, 505 U.S. 1003, 1019 (1992).

106. *See* Cai Congyan, *International Investment Treaties and the Formation, Application and Transformation of Customary International Law Rules*, 7 CHINESE J. INT’L L. 659, 664–65 (2008) (noting that the four elements for legal expropriation are public purpose; non-discrimination; due process; and prompt, adequate, and effective compensation); Abbott, *supra* note 73, slide 4.

107. General international rules require that takings be non-discriminatory. Subramanian & Watal, *supra* note 13, at 411; *see also* *Banco Nacional de Cuba*, 376 U.S. at 402–03 (“Our State Department has described the Cuban [expropriation] law as ‘manifestly in violation of those principles of international law which have long been accepted by the free countries of the West. It is in essence discriminatory, arbitrary, and confiscatory.’”).

108. *See infra* section III.C for special problems that arise because separate rights attach to any given copyrighted work—for example, rights in the underlying musical composition and separate rights for the producer(s) and performer(s)—and each right holder may have a different nationality.

109. *See* Posting of Shammad Basheer to SPICY IP Blog, Turning TRIPS on its Head: Cross-Retaliation at the WTO, <http://spicyipindia.blogspot.com/2008/02/turning-trips-on-its-head-cross.html> (Feb. 14, 2008 22:25 EST).

110. *See* Abbott, *supra* note 71, at 415. TRIPS substantive standards can be divided into three sub-categories: (1) substantive standards established by cross-referencing existing IP treaties (for example, Article 9 of TRIPS requires members to comply with Articles 1 through 21 of the Berne Convention; Article 2 of Berne, which defines what subject matter can be protected by copyright, thus defines copyrightable subject matter under TRIPS); (2) substantive standards unique to TRIPS (for example, Article 27 of TRIPS requires that patents be available for inventions in any field of technology, without reference to the existing Paris Convention); and (3) substantive standards that clarify or extend obligations under existing IP treaties (for example, Article 2 of Berne does not explicitly allow copyright protection for computer programs, although it may be implicitly allowed, but Article 10 of TRIPS makes it explicit that computer programs can be protected by copyright law). *See*

with multiple paragraphs and sub-paragraphs. This creates a virtually infinite number of ways that a country could suspend TRIPS obligations, subject to the requirement that the level of the suspension of concessions or other obligations not exceed the level of nullification or impairment.<sup>111</sup>

This Part focuses on trademark, patent, and copyright obligations under TRIPS. Each section begins with an overview of TRIPS obligations and then evaluates various ways that a country could retaliate by suspending particular obligations. Of the many options, this Note offers a comprehensive approach for how to treat trademarks, patents, and copyrights in a way that is lawful and feasible for a retaliating country.<sup>112</sup> Specifically, this Note proposes that a retaliating country (as modified for the conditions in a particular country): (1) not suspend trademark or geographical indication obligations because of the significant functions they serve;<sup>113</sup> (2) issue compulsory licenses for the production of patented pharmaceuticals and the use of other patented technologies but suspend the obligation to pay “adequate remuneration”; and (3) suspend copyright obligations in order to issue compulsory licenses for the reproduction, distribution, and/or performance of copyrighted music, movies, and computer software. Because of the issues addressed in Parts I and II, this Note also suggests that a retaliating country suspend as much as possible under GATT or GATS before looking to TRIPS<sup>114</sup> and only suspend the residual amount of

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*id.* at 419–20. Note that nothing in TRIPS provides an affirmative right to sell products embodying IP rights, although GATT principles like non-discrimination may help secure certain rights. *See* Abbott, *supra* note 71, at 434 nn.76–79 (noting that governments can ban copyrighted books, magazines, and films; governments can restrict the availability of patented pharmaceuticals because of health and safety concerns; and governments can obstruct the distribution of trademarked goods on moral or religious grounds).

111. The DSU requires that “the level of the suspension of concessions or other obligations authorized by the DSB” is “*equivalent* to the level of the nullification or impairment.” DSU, *supra* note 4, art. 22.4 (emphasis added).

112. *Cf.* Subramanian & Watal, *supra* note 13, at 405 (“If designed with care, such retaliation in TRIPS can be feasible, effective, and legal.”).

113. This Note also advises against suspending trade secret obligations. TRIPS provides for the protection of trade secrets as “undisclosed information.” TRIPS Agreement, *supra* note 3, art. 39.1. To use trade secrets in retaliation, the government must first know the secret. If a trade secret is made publicly available, it loses most or all of what may be substantial commercial value. Trade secrets can be selectively licensed, but there is a risk that the secret will become generally known. Because of these and other concerns, a retaliating government may do well to focus on options other than the suspension of trade secret obligations. One exception, however, may be the selective disclosure of confidential tests or other data submitted to a government entity by pharmaceutical and agricultural chemical companies in order to market a product domestically. *See* Abbott, *supra* note 73, slide 13. Article 39 of TRIPS ordinarily requires members to protect this data, when its origination “involves a considerable effort,” against “unfair commercial use” and against disclosure, except where necessary to protect the public. TRIPS Agreement, *supra* note 3, art. 39.3.

114. As discussed above, suspending TRIPS obligations interferes with the private rights of individuals and companies, while suspending GATT or GATS obligations does not affect the ability of producers and service suppliers to choose to stop exporting to the retaliating country. *See EC—Bananas III*, *supra* note 10, ¶ 157.

nullification or impairment under TRIPS.<sup>115</sup>

The proposals for retaliation with regard to patents and copyrights present numerous challenges for the retaliating country and for domestic entities that seek to take advantage of the suspension opportunities. In the end, all entities concerned will need to consider the political, economic, and legal considerations when deciding how to proceed. Ideally, a proposal like the one described below will be sufficiently credible to encourage the violating state to bring itself into compliance with its WTO obligations without the retaliating government needing to suspend any private IP rights.

#### A. TRADEMARKS AND GEOGRAPHICAL INDICATIONS

TRIPS defines a trademark as “[a]ny sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings . . . .”<sup>116</sup> Examples of trademarks include “Delta” airlines (and a separate “Delta” trademark for faucets), “Apple” computers, the Nike “Swoosh” logo, NBC’s “three chimes” sound, and even the scent of plumeria blossoms for sewing thread.<sup>117</sup> Trademarks have substantial value because the right holder can prevent others from using similar marks when the use is likely to cause confusion within the public regarding the source of the goods.<sup>118</sup> Trademark owners can also profit from licensing others to use their marks. Because trademarks serve socially and economically beneficial purposes, TRIPS prohibits the compulsory licensing of trademarks.<sup>119</sup>

A geographical indication (GI) is a form of trademark that identifies a good as originating in a territory, region, or locality “where a given quality, reputation, or other characteristic of the good is essentially attributable to its geographical

115. The Ecuador arbitrators made this recommendation. *See id.* ¶ 176; Charnovitz, *supra* note 5, at 820 n.237; Subramanian & Watal, *supra* note 13, at 405 n.8.

116. TRIPS Agreement, *supra* note 3, art. 15.1. In the United States, names, symbols, logos, slogans, product design and packaging, sounds, and smells can all qualify for trademark protection under the Lanham Act. *See* Lanham Act § 45, 15 U.S.C. § 1127 (2006) (defining “trademark” to include “any word, name, symbol, or device, or any combination thereof”); ROBERT P. MERGES, PETER S. MENELL, & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 648 (4th rev. ed. 2007).

117. *See* MERGES, *supra* note 116, at 648; Lisa P. Ramsey, *Intellectual Property Rights in Advertising*, 12 MICH. TELECOMM. TECH. L. REV. 189, 207 (2006); *see also* Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 162 (1995) (holding that a color could qualify as a trademark).

118. TRIPS Agreement, *supra* note 3, art. 16.1 (“The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion.”). A likelihood of confusion is presumed when an identical mark is used for identical goods. *Id.* art. 16.1.

119. *Id.* art. 21 (“Members may determine conditions on the licensing and assignment of trademarks, it being understood that *the compulsory licensing of trademarks shall not be permitted . . .*” (emphasis added)); GERVAIS, *supra* note 1, at 183 (“The purpose of a trademark being its ability to distinguish the goods or services of one undertaking from those of another, it would be nonsensical to let a third party use that link as identifying the product or service without the consent of (and control by) the trademark owner.”).

origin.”<sup>120</sup> GIs for wine and spirits receive special attention in the TRIPS Agreement.<sup>121</sup>

The TRIPS Agreement requires that marks be eligible for registration under each member’s domestic trademark law, subject to the country’s own registration requirements.<sup>122</sup> In addition, WTO members must provide domestic enforcement procedures<sup>123</sup> and a special border control measure that allows a right holder who “has valid grounds for suspecting” that “counterfeit trademark goods” may be imported to petition judicial or administrative authorities to stop the release of the goods into the domestic market.<sup>124</sup>

A retaliating government could potentially suspend any of these trademark or GI obligations. A retaliating country could therefore: (1) allow domestic companies to use foreign trademarks;<sup>125</sup> (2) suspend trademark enforcement or the border control measure; or (3) prohibit nationals of the violating state from registering their marks, among many other options.

On the other hand, trademarks serve many significant functions, including (1) helping to distinguish the goods of one producer from the goods of others; (2) signifying that all goods bearing the mark come from the same source and meet the same level of quality; (3) informing consumers about the characteristics of a particular product; (4) permitting competitors to compete on quality in order to build goodwill in their brands; and (5) preventing (or significantly reducing) consumer confusion about the source of their goods while aiding consumer purchases of the brands they know and like.<sup>126</sup> Because of the valuable role that trademarks play in preventing consumer confusion and the risk that a retaliating government will hurt its own consumers, retaliating governments should not suspend their domestic trademark obligations.<sup>127</sup> Unlike nearly identical digital copies of music, a cheap red wine does not become a fine Bordeaux simply because a domestic producer slaps a Bordeaux label on the bottle.<sup>128</sup>

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120. TRIPS Agreement, *supra* note 3, art. 22.1.

121. *See id.* art. 23.

122. *See id.* art. 15.

123. *See id.* pt. III.

124. *See id.* art. 51; *see also* J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 INT’L LAW. 345, 364–65 (1995).

125. Ecuador proposed a domestic licensing scheme for GIs similar to the one described below for copyrights. The Ecuadorian government would grant the licenses for a specific product and quantity and could revoke them at any time. *EC—Bananas III*, *supra* note 10, ¶ 162. The value of the suspension would be calculated based on the extent to which protected EC products were displaced by non-protected products. *Id.*

126. *See* J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 3:2, 3:4, 3:5, 3:10, 3:12 (4th ed. 2008).

127. *Cf.* Basheer, *supra* note 35, at 53 (proposing that trademarks and/or GIs may be suspended after one year if suspending patents, copyrights, and other forms of IP is not sufficient).

128. *See EC—Bananas III*, *supra* note 10, ¶ 162; *cf.* Bronckers & van den Broek, *supra* note 24, at 105 (arguing that “[w]hereas such retaliation might have created annoyance amongst French wine producers and certain European hit artists particularly popular in Ecuador, it was unlikely to result in much political pressure on the EC”).

## B. PATENTS

## 1. Patent Protection Under TRIPS

TRIPS requires that WTO members establish a domestic patent regime that complies with significant minimum standards,<sup>129</sup> including: (1) allowing patentability in any field of technology,<sup>130</sup> subject to certain exceptions;<sup>131</sup> (2) providing for twenty years of patent protection;<sup>132</sup> and (3) granting a bundle of exclusive rights to the patentee, including the right to prevent others from making, using, offering for sale, selling, or importing the product without the patentee's consent.<sup>133</sup>

Flexibilities in the Agreement, however, allow members to (1) provide "limited exceptions" to the exclusive patent rights;<sup>134</sup> (2) adopt measures "necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development";<sup>135</sup> and (3) adopt measures "needed to prevent the abuse of intellectual property rights by right holders."<sup>136</sup> An "abuse of intellectual property rights" includes a refusal to authorize use on "reasonable commercial terms,"<sup>137</sup> or a "resort to practices which . . . adversely affect the international transfer of technology."<sup>138</sup> These provisions offer developing countries certain freedom from the weight of TRIPS minimum standards.

Based on these obligations, a retaliating country could, among many other options: (1) suspend granting patents or patent priority to nationals of the violating state during the period of IP suspension;<sup>139</sup> (2) curtail or eliminate some or all of the exclusive patent rights; and/or (3) reduce the term of

129. See Reichman, *supra* note 124, at 351–61 (outlining TRIPS provisions on patents).

130. TRIPS Agreement, *supra* note 3, art. 27.1.

131. See *id.* arts. 27.2, 27.3 (allowing members to refuse to grant patents for inventions "necessary to protect *ordre public* or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment" as well as "diagnostic, therapeutic, and surgical methods," plants, animals, and biological processes).

132. *Id.* art. 33.

133. *Id.* art. 28.

134. *Id.* art. 30 (allowing "limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner . . .").

135. *Id.* art. 8.1.

136. *Id.* art. 8.2.

137. *Id.* art. 31(b); see Reichman, *supra* note 124, at 355–56.

138. TRIPS Agreement, *supra* note 3, art. 8.2; see Reichman, *supra* note 124, at 354–55.

139. See Joost Pauwelyn, *A Typology of Multilateral Treaty Obligations: Are WTO Obligations Bilateral or Collective in Nature?*, 14 EUR. J. INT'L L. 907, 939 (2003). For signatory countries, suspending national treatment obligations may well violate obligations under the Paris Convention. See Subramanian & Watal, *supra* note 13, at 410. TRIPS includes provisions for both national treatment and Most Favored Nation status that apply to all areas of intellectual property covered by the Agreement. See TRIPS Agreement, *supra* note 3, art. 3.1 ("Each member shall accord to the nationals of other Members treatment no less favorable than it accords to its own nationals with regard to the protection of intellectual property [subject to existing exceptions in the Paris, Berne, and Rome Conventions]."); *id.* art. 4 ("With regard to the protection of intellectual property, any advantage,

protection.

At least one author argues that suspending the right of a U.S. individual or company to file for and obtain a patent or suspending the Paris Convention's twelve-month grace period—whereby an inventor, after filing for a patent in one member country, has twelve months to file in other member countries without losing patent priority—would effectively pressure technology exporting countries like the United States.<sup>140</sup> If a second inventor files for the same invention during the period of suspension, the first inventor may be prevented from ever receiving a patent on his or her invention.<sup>141</sup> Suspending patent priority, however, raises major issues of valuation and non-equivalence, since it may be impossible to know how much a patented idea is worth before it is commercialized and the lost value of a twenty-year monopoly on a truly revolutionary invention may greatly exceed the authorized level of retaliation.<sup>142</sup> These options are therefore suboptimal to a regime of government-issued compulsory licenses for patented inventions.

TRIPS already permits compulsory licensing, subject to the requirements of Article 31.<sup>143</sup> This Note proposes that a retaliating government issue compulsory licenses to domestic companies and individuals for the unauthorized use of product and process patents (particularly for pharmaceutical products), but the country should suspend the Article 31 obligation to pay adequate remuneration to the patent holder.<sup>144</sup> Under such a regime, inventors from the non-complying state retain the right to file for a patent and existing patent holders retain their underlying patent(s); this helps reinstate their exclusive rights upon termination of the suspension regime.

## 2. Compulsory Licensing of Pharmaceutical Patents Under Article 31

For many developing countries, access to patented pharmaceuticals is a top priority. Article 31 of TRIPS allows a government or third-party authorized by

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favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members.”).

140. See Hertz, *supra* note 58, at 275 & n.73.

141. See *id.*

142. See Subramanian & Watal, *supra* note 13, at 412.

143. See TRIPS Agreement, *supra* note 3, art. 31 & n.7 (requiring that “[w]here the law of a Member allows for other use of the subject matter of a patent [meaning use other than uses permitted under Article 30] without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected”).

144. See Subramanian & Watal, *supra* note 13, at 413. The discussion in section III.A reflected a concern about counterfeit trademark products differing from the original product. A similar concern applies to generic pharmaceuticals, which may not have an identical composition to their patented counterparts. See, e.g., Valerie Junod, *Drug Marketing Exclusivity Under United States and European Union Law*, 59 FOOD & DRUG L.J. 479, 505 (2004) (discussing the four requirements for a generic drug to be “essentially similar” to the “pioneer/reference” drug). Any generic drugs produced under compulsory license must be labeled in a way that fully informs consumers about the product being purchased. Cf. Basheer, *supra* note 35, at 53 (insisting on strict labeling requirements for goods produced under suspended trademark obligations).

the government to use the subject matter of a patent without the authorization of the right holder, but only if it respects a list of substantive and procedural hurdles. First, the proposed user must try to obtain authorization from the right holder, except in cases of “national emergency or other circumstance of extreme urgency or in cases of public non-commercial use.”<sup>145</sup> Second, the goods produced must be “predominantly for the supply of the domestic market.”<sup>146</sup> For this reason, goods produced under these licenses generally cannot be exported.<sup>147</sup> Third, the right holder must be paid “adequate remuneration . . . taking into account the economic value of the authorization.”<sup>148</sup>

Several important points should be noted. First, the Article 31 compulsory license procedure must be followed only when the particular product—like a blockbuster pharmaceutical drug—is protected under the authorizing country’s domestic patent regime.<sup>149</sup> TRIPS requires that such a patent regime be in place, but the burden is on the company or individual inventor to apply for patent protection in each individual country.<sup>150</sup> Second, WTO members can make use of this procedure without having to win a case in the dispute settlement system and without any authorization from the WTO’s DSB to cross-retaliate. For example, Brazil and Thailand issued compulsory licenses apart from any WTO dispute.<sup>151</sup> Some lower-income developing countries also issued compulsory licenses for the domestic production of HIV/AIDS medicines—including Mozambique, Zambia,<sup>152</sup> and Zimbabwe—and it appears that all three have taken steps

145. TRIPS Agreement, *supra* note 3, art. 31(b).

146. *Id.* art. 31(f); *see* Reichman, *supra* note 124, at 356.

147. This export limitation, as well as the need to negotiate with the right holder before conducting unauthorized use, does not apply if a judicial or administrative authority determines that the right holder has engaged in anti-competitive practices. *See* TRIPS Agreement, *supra* note 3, art. 31(k); Reichman, *supra* note 124, at 356.

148. TRIPS Agreement, *supra* note 3, art. 31(h).

149. *See* Frederick M. Abbott & Jerome H. Reichman, *The Doha Round’s Public Health Legacy: Strategies for the Production and Diffusion of Patented Medicines Under the Amended TRIPS Provisions*, 10 J. INT’L ECON. L. 921, 940 (2007).

150. A retaliating country able to produce generic versions of patented drugs could export these drugs to a country, including a least-developed country, where the drug is not under patent protection. *See* Ruse-Khan, *supra* note 3, at 354 & n.186; discussion *infra* note 152. A pharmaceutical company typically applies for patent protection only in approximately thirty countries for any given drug. Interview with Jay Thomas, Professor of Law, Georgetown University Law Center, in Wash., D.C. (Feb. 25, 2008).

151. *See* Abbott & Reichman, *supra* note 149, at 949–53 (discussing Brazil and Thailand’s issuance of compulsory “government use” licenses within the legal framework of Article 31 and the Doha Declaration, to import from India generic versions of drugs patented domestically).

152. Mozambique and Zambia are considered “least-developed” countries, and as such, they are not obliged to implement or apply the minimum standards of patent protection and enforcement provided in Sections 5 and 7 of Part II of the TRIPS Agreement for “pharmaceutical products” until 2016. *See* Press Release, World Trade Org., Council Approves LDC Decision with Additional Waiver (June 28, 2002), available at [http://www.wto.org/english/news\\_e/pres02\\_e/pr301\\_e.htm](http://www.wto.org/english/news_e/pres02_e/pr301_e.htm); World Trade Org., Understanding the WTO: The Organization—Least Developed Countries, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org7\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org7_e.htm) (last visited Dec. 25, 2008).

to produce the drugs domestically.<sup>153</sup>

This Note proposes that retaliating countries able to produce pharmaceuticals domestically should use their DSB authorization to suspend the obligation to pay adequate remuneration under Article 31(h). The retaliating government can then set the amount of the (withheld) royalty with reference to actual royalty payments in other countries. This helps reduce the risk that the retaliating government will itself violate WTO law by exceeding its authorized level of retaliation. This is a real risk if, for example, the retaliating country refused to grant patents to nationals of the violating state and then tried arbitrarily to assign a value to lost patent opportunities.

The retaliating government must still decide how to calculate the amount of the remuneration royalty. TRIPS permits WTO members to calculate remuneration in different ways. Article 1 of TRIPS allows members to “determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.”<sup>154</sup> Article 31’s remuneration provision provides only that the right holder shall be paid “adequate” remuneration “in the circumstances of each case, taking into account the economic value of the authorization.”<sup>155</sup> U.S. courts, for example, use a fifteen-factor test to determine a ‘reasonable royalty’ for purposes of calculating damages in patent infringement cases.<sup>156</sup>

In the pharmaceutical field, the difference in value between generic and patented pharmaceuticals is relatively well understood.<sup>157</sup> If the patent holder already licensed the patent or a similar drug, the license provides the best benchmark of the patent’s value since the company already accepted this amount as adequate to use and sell its invention. In addition, if other countries have issued compulsory licenses for the same drug, the remuneration they pay provides another benchmark for the retaliating country.

Once the amount is set, the question remains whether withholding adequate remuneration will exert significant pressure on the powerful pharmaceutical

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153. Consumer Project on Tech., Examples of Health-Related Compulsory Licensing, <http://www.cptech.org/ip/health/cl/recent-examples.html> (last visited Dec. 6, 2008), cited in Savoie, *supra* note 15, at 238 & nn.178–79. The royalty on these drugs is two to two-and-a-half percent of the “total turnover” of the product for each fiscal year. See *id.* Malaysia and Indonesia (in 2004) and Eritrea and Ghana (in 2005) also issued compulsory licenses. See *id.* Ruse-Khan argues, on the other hand, that a “significant amount of developing countries and small economies will not have the necessary technological know how and manufacturing capacities” to produce pharmaceuticals. Ruse-Khan, *supra* note 3, at 352.

154. TRIPS Agreement, *supra* note 3, art. 1.1.

155. *Id.* art. 31(h). Article 31 provides that remuneration decisions “shall be subject to judicial review or other independent review by a distinct higher authority in that Member.” *Id.* art. 31(j). Based on Article 1 of TRIPS, however, the judicial review process may vary significantly between WTO members. See Bradley Condon & Tapen Sinha, *Global Diseases, Global Patents and Differential Treatment in WTO Law: Criteria for Suspending Patent Obligations in Developing Countries*, 26 *Nw. J. INT’L L. & BUS.* 1, 9 n.29 (2005).

156. See 35 U.S.C. § 284 (2006); *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970); *MERGES*, *supra* note 116, at 359–61.

157. Abbott, *supra* note 73, slide 9.

interests in developed countries. Royalties are generally low, so the lost revenue is likely not very significant (particularly because major pharmaceutical companies already provide drugs to the poorest nations for free and to middle-income developing countries, like Brazil and Thailand, at highly-negotiated rates). Patent holders are concerned, however, that the drugs will be diverted from the intended market and imported into developed country markets.<sup>158</sup> Pharmaceutical companies also fear a general abuse of compulsory licensing. While Article 31 contains numerous substantive and procedural obligations that benefit pharmaceutical companies, a retaliating government can suspend these obligations at will.

### 3. The 2003 Waiver Decision, Article 31*bis*, and the Importation of Generic Pharmaceuticals

Many countries lack an adequate domestic manufacturing capacity to produce generic pharmaceuticals<sup>159</sup> and therefore cannot take advantage of Article 31. These are likely many of the same countries that (1) would want to cross-retaliate and (2) could satisfy Article 22.3's "not practicable or effective" requirement such that they could cross-retaliate.<sup>160</sup> Since 2001, the WTO has acted to address this issue.

In 2003, the General Council agreed to a Decision (2003 Waiver Decision) allowing countries to waive the "predominantly for the supply of the domestic market" requirement of Article 31(f).<sup>161</sup> The 2003 Waiver Decision permits countries with adequate manufacturing capacity to export drugs to countries without such capacity.<sup>162</sup> In 2005, WTO members moved to incorporate the 2003 Waiver Decision into the text of the TRIPS Agreement as Article 31*bis*—which would make it the first TRIPS amendment—but as of the December 2007 ratification deadline, only 13 WTO members had agreed to ratify the amendment.<sup>163</sup> The WTO responded by pushing back the ratification deadline to December 2009; in the meantime, the 2003 Waiver Decision remains in effect and available for use.<sup>164</sup>

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158. Posting of Shamnad Basheer to Spicy IP Blog, Doha Style Compulsory Licensing for Exports: The Politics . . . , <http://spicyipindia.blogspot.com/2008/01/doha-style-compulsory-licenses-for.html> (Jan. 31, 2008, 18:40 EST). Using different packaging and different color tablets, among other options, can help guard against reimportation. *See id.*

159. Key active ingredients must also be available to produce generic drugs. *See* Abbott & Reichman, *supra* note 149, at 927–28.

160. On the other hand, companies may not have applied for patents in countries that lack the domestic manufacturing capacity to produce the drug.

161. Decision of the General Council, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health*, WT/L/540 (Aug. 30, 2003), available at [http://www.wto.org/english/tratop\\_e/trips\\_e/implem\\_para6\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm).

162. *See* Abbott & Reichman, *supra* note 149, at 929–30.

163. Posting of Shamnad Basheer to Spicy IP Blog, *supra* note 158. Sixty-seven percent of the WTO membership must agree to Article 31*bis* to adopt the amendment. *Id.*

164. *Id.* For an excellent discussion of the 2003 Waiver Decision and Article 31*bis* see Abbott & Reichman, *supra* note 149, at 932–49.

Under the 2003 Waiver Decision (and Article 31*bis*), both the importing and exporting governments must issue their own compulsory licenses, but only the exporting country needs to pay the “adequate remuneration.”<sup>165</sup> Therefore, if a retaliating government imports generic pharmaceuticals, it does not need to suspend the adequate remuneration requirement. Conceivably, however, an exporting country able to gain DSB authorization to cross-retaliate could suspend *its* obligation to pay the adequate remuneration.<sup>166</sup> This would provide a competitive advantage in the expanding market for exported generic pharmaceuticals among countries now able to import such drugs under the 2003 Waiver Decision.

#### 4. Compulsory Licenses for Non-Pharmaceutical Patents

Because the Article 31 compulsory license procedure applies to any patent, a retaliating country could also suspend obligations for non-pharmaceutical patents.<sup>167</sup> Since patentees must disclose their invention, companies and individuals in the retaliating state may well have the ability and interest to work the patented invention in certain fields,<sup>168</sup> especially when freed of the risk of patent infringement liability and the obligation to pay a negotiated royalty.<sup>169</sup> As in the case of pharmaceuticals, compulsory licensing of other technologies only applies when someone patented the invention in the retaliating state. A retaliating state should also consider compulsory licensing patents that are nearing their expiration because this increases the chance that the patent will expire during the IP suspension period and thus decreases the risk that domestic licensees will have to shut down if the retaliating government abruptly terminates the period of IP suspension.<sup>170</sup>

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165. Decision of the General Council, *supra* note 161, ¶ 3. Article 31*bis* includes the same provision. See Decision of the General Council, *Amendment of the TRIPS Agreement*, Annex to the Protocol Amending the TRIPS Agreement (Article 31*bis*), ¶2, WT/L/641 (Dec. 6, 2005), available at [http://www.wto.org/english/tratop\\_e/trips\\_e/wtl641\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/wtl641_e.htm).

166. Until the WTO membership ratifies Article 31*bis*, the ability of an exporting country to suspend the adequate remuneration requirement in the 2003 Waiver Decision is premised on the assumption that a country can suspend obligations under a General Council Decision, which is unclear because the 2003 Waiver Decision is not technically part of the TRIPS Agreement or another agreement eligible for suspension under Article 22.3 of the DSU. See DSU, *supra* note 4, art. 22.3(g)(iii) (“[F]or purposes of [Article 22.3], ‘agreement’ means . . . with respect to intellectual property rights, the Agreement on TRIPS.”).

167. See TRIPS Agreement, *supra* note 3, art. 31.

168. For example, a developing country may wish to suspend protection for plant varieties, which may permit the planting of otherwise protected seeds. See Abbott, *supra* note 73, slide 14. Under TRIPS, members must “provide for the protection of plant varieties either by patents *or* by an effective *sui generis* system *or* by any combination thereof.” TRIPS Agreement, *supra* note 3, art. 27.3(b) (emphasis added).

169. Vaccine manufacturers in Brazil and India, for example, complain that concerns about patent infringement distract and impede their ability to produce needed vaccines. See Julie B. Milstein, *Access to Vaccine Technologies in Developing Countries: Brazil and India*, 25 VACCINE 7610, 7610–11, 7618 (2007).

170. See Basso & Beas, *supra* note 76, at 20.

## C. COPYRIGHTS

## 1. Copyright Protection Under TRIPS and the Berne Convention

Copyright law protects a wide variety of original expression, from literary works, music, and movies to computer software. Copyright protection is not available for “ideas, procedures, [or] methods of operation,” which are within the purview of patent law.<sup>171</sup> The TRIPS Agreement protects copyrightable works largely by requiring all WTO members to comply with Articles 1 to 21 of the Berne Convention.<sup>172</sup> Berne provides for national treatment; foreign authors are to receive the same treatment as a member’s own authors.<sup>173</sup> When a foreign author produces a work, copyright protection attaches without the need to satisfy any formality, such as copyright registration, deposit, or notice.<sup>174</sup> Substantively, Berne establishes minimum standards of protection, including (1) the exclusive right to reproduce literary and artistic works “in any form or manner”; (2) the exclusive right to authorize the public performance of dramatic and musical works and any communication to the public of the performance; (3) the exclusive right to authorize “adaptations, arrangements, and other alterations” (known as “derivative” works); and (4) certain rights for the “owner” of copyright in a cinematographic work.<sup>175</sup> The Berne Convention (and the TRIPS Agreement) permit, however, certain limited exceptions to the exclusive rights.<sup>176</sup>

TRIPS goes beyond the Berne Convention by protecting computer programs’ source and object code as literary works,<sup>177</sup> by providing for domestic enforce-

171. TRIPS Agreement, *supra* note 3, art. 9.2.

172. *See id.* art. 9.1 (“Members shall comply with Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto.”); Roberto Garza Barbosa, *Revisiting International Copyright Law*, 8 BARRY L. REV. 43, 69 (2007). TRIPS did not, however, incorporate the moral rights provision of Berne (Article 6*bis*). *See id.* While Berne dates from 1886, the United States did not accede to Berne until 1989. *See* MARK A. FISCHER ET AL., PERLE & WILLIAMS ON PUBLISHING LAW 22-6 (3d ed. Supp. 2006).

173. Berne Convention, *supra* note 48, art. 5(1) (“Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.”); *see* Robert S. Chaloupka, *International Aspects of Copyright Law*, 15 INT’L HR J. 18, 18–19 (2006).

174. Berne Convention, *supra* note 48, art. 5(2) (“The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work.”); *see* WORLD INTELLECTUAL PROP. ORG., WIPO INTELLECTUAL PROPERTY HANDBOOK: POLICY, LAW, AND USE, ¶ 5.170, at 262–63 (2001), available at <http://www.wipo.int/about-ip/en/iprm/>.

175. *See* Berne Convention, *supra* note 48, arts. 8, 11, 11*bis*, 12, 14, 14*bis*; WILLIAM F. PATRY, 7 PATRY ON COPYRIGHT § 23:35 (2008).

176. *See* TRIPS Agreement, *supra* note 3, art. 13 (“Members shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.”); Berne Convention, *supra* note 48, app. arts. II–V (allowing a developing country to grant compulsory licenses for the reproduction and translation of protected works for certain educational purposes); *see also* discussion *infra* note 208. A retaliating country, however, may be able to suspend limitations built into these exceptions. *See* Ruse-Khan, *supra* note 3, at 337 & n.114.

177. *See* TRIPS Agreement, *supra* note 3, art. 10.1; Barbosa, *supra* note 172, at 70. Berne did not explicitly provide copyright protection for computer programs. *See* Barbosa, *supra* note 172, at 70.

ment mechanisms,<sup>178</sup> and by submitting disputes about a WTO member's copyright law to the WTO's dispute settlement system.<sup>179</sup> TRIPS also provides "rental rights" for computer programs and cinematographic works, which give authors of these works the right to authorize the commercial rental of their work to the public.<sup>180</sup> In addition, Article 14 of TRIPS codifies protections for performers, producers, and broadcasting organizations.<sup>181</sup> WTO members must protect these minimum rights, but as stated in Berne, "the laws of the country where protection is claimed" exclusively govern the extent of protection and the means to redress violations.<sup>182</sup>

## 2. Compulsory Licensing of Copyrighted Works: The Ecuador and U.S. Precedents

Reproducing copyrighted works may become a principal method of cross-retaliation<sup>183</sup> because copyrighted works, especially in a digital format, are easy to reproduce and distribute.<sup>184</sup> The retaliating government must therefore carefully circumscribe any authorization to copy these works to avoid exceeding the authorized level of retaliation and to avoid becoming a haven for IP piracy.<sup>185</sup>

To address these concerns, Ecuador in *EC—Bananas III* proposed a system of revocable domestic licenses. Under its plan, which was never implemented, Ecuador would suspend Article 14 of TRIPS, which otherwise requires that Ecuador protect "related rights" of EC producers and performers in their sound

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178. See TRIPS Agreement, *supra* note 3, pt. III.

179. Chaloupka, *supra* note 173, at 21.

180. TRIPS Agreement, *supra* note 3, art. 11; Chaloupka, *supra* note 173, at 21.

181. TRIPS Agreement, *supra* note 3, art. 14. For example, TRIPS grants performers the right to prevent the fixation of their unfixated performances, the reproduction of those fixations, and the wireless broadcasting of their live performance. *Id.* art. 14.1. Producers secure the right to authorize or prohibit the direct or indirect reproduction of their sound recordings. *Id.* art. 14.2; see *infra* section III.C.3.

182. Berne Convention, *supra* note 48, art. 5(2).

183. This is particularly true because domestic suppliers may be able to reproduce copyrighted works with minimal initial investment and minimal financial loss if production needs to shut down in the event that the violating state brings itself into compliance or the dispute is settled. See Subramanian & Watal, *supra* note 13, at 413.

184. Technological protection measures (TPMs), which restrict access to and the use of copyrighted content, may present challenges to a retaliating government, but TPMs are unlikely to prevent the reproduction of copyrighted works given the high rate of piracy around the world. See Elizabeth F. Judge & Robert J. Tomkowitz, *The Right of Exclusive Access: Misusing Copyright to Expand the Patent Monopoly*, 19 J. INTEL. PROP. 351, 359 (2006) (commenting that digital rights management systems "have already suffered serious setbacks" in their effort to fight online piracy and may never be effective because "every technological barrier can be defeated by another technology"); Abbott, *supra* note 73, slide 8.

185. The same general retaliation options for trademarks and patents are available for copyrights, including suspending national treatment and/or suspending enforcement obligations under Part III of TRIPS. See Subramanian & Watal, *supra* note 13, at 407, 410, 413; see also J. Benjamin Bai et al., *From Infringement to Innovation: Counterfeiting and Enforcement in the BRICS*, 5 Nw. J. TECH. & INTEL. PROP. 525, 532 (2007) (noting estimates that the United States lost \$13 trillion in trade due to piracy of software and other copyrighted materials).

recordings.<sup>186</sup> Companies and individuals established within Ecuador could then request a license to reproduce the works that would be limited in quantity, value, and duration.<sup>187</sup> Unlike goods produced with suspended geographical indications, reproductions under this licensing system would be duplicates of the original (although there may be quality issues with the copies).<sup>188</sup> The government would retain the power to revoke the license if and when the European Communities came into compliance and/or Ecuador reached the authorized level of retaliation.<sup>189</sup> The *EC—Bananas III* arbitrators also suggested that “[d]istortions in third-country markets could be avoided if Ecuador would suspend the intellectual property rights in question only for the purposes of supply destined for the domestic market”; a DSB authorization to suspend TRIPS obligations does not permit other WTO members to derogate from their TRIPS obligations, including obligations “in regard to imports entering their customs territories.”<sup>190</sup> Finally, the reproduction of an individual sound recording would be assigned a “suspension value” equal to the average “related right value” of a “new, commercially most interesting sound recording” in Europe, as estimated by the International Federation of the Phonographic Industry (IFPI).<sup>191</sup>

Ecuador believed there was “very close to nil” chance that this scheme, together with the suspension of other IP obligations, would reach the \$201 million per year in authorized retaliation.<sup>192</sup> Ecuador rebutted concerns that it would exceed its authorization by showing that its total domestic market for EC exports of European music (and for alcohol products with European geographical indications) was smaller than the authorized level of annual retaliation.<sup>193</sup> Based on this proposal, the Ecuador arbitrators expressed support for this compulsory licensing regime, including the right to reproduce copyrighted works without the authorization of the right holders and without the payment of any remuneration.<sup>194</sup>

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186. Ecuador did not request suspending Article 9 of TRIPS. See *EC—Bananas III*, *supra* note 10, ¶¶ 161, 173(d). By suspending Article 9, which incorporates Articles 1 to 21 of Berne within TRIPS, Ecuador could deny copyright protection for whole categories of works or limit the exclusive rights that attach with copyright protection, or both, among other options. *Cf. id.* ¶ 161 (“Ecuador submits that it never had the intention to . . . put all EC produced phonograms in the public domain which it could arguably do only if it had requested suspension of Article 9 of the TRIPS Agreement . . .”).

187. *See id.* ¶ 161.

188. *Id.* ¶ 162.

189. *See Smith*, *supra* note 44, at 270.

190. *EC—Bananas III*, *supra* note 10, ¶ 156. Limiting the goods to the domestic market may be difficult to police domestically. If exports occur, IP right holders can petition the importing state to suspend the release of the goods into free circulation. *See TRIPS Agreement*, *supra* note 3, art. 51; discussion *infra* section III.C.4.

191. *EC—Bananas III*, *supra* note 10, ¶ 161; Daniel Pruzin, *Intellectual Property: Hailing Final WTO Decision in Banana Case, Ecuador Sees Landmark for Poorer Countries*, 17 *Int’l Trade Rep.* (BNA) 530 (2000).

192. *EC—Bananas III*, *supra* note 10, ¶ 161.

193. *See Smith*, *supra* note 44, at 270.

194. *See EC—Bananas III*, *supra* note 10, ¶ 160 (“[Use of the intellectual property] may be expected to increase as a result of the fact that the DSB’s authorization would allow using such intellectual

Copyright law in the United States demonstrates that compulsory licensing is feasible.<sup>195</sup> Specifically, section 115 of the U.S. Copyright Act authorizes anyone to obtain a compulsory license to reproduce and distribute phonorecords—the Copyright Act’s term for fixed copies such as CDs<sup>196</sup>—of a nondramatic musical work, subject to the payment of a statutorily-defined royalty to the copyright owner.<sup>197</sup> Congress added this provision 100 years ago to address concerns about monopolistic behavior in the reproduction of perforated piano-player rolls.<sup>198</sup> Today, the license allows the reproduction and distribution of musical compositions in many forms, including sheet music, CDs, and digital music distributed online.<sup>199</sup> Anyone desiring to use this provision must: (1) serve notice on the copyright owner or the owner’s agent and (2) make royalty payments accompanied by a monthly statement accounting for every phonorecord made and distributed in accordance with the compulsory license.<sup>200</sup> The royalty rate, set by the Copyright Royalty Board, is currently 9.1 cents per song.<sup>201</sup>

### 3. Specific TRIPS Provisions To Suspend

To issue compulsory licenses for the reproduction of musical works and motion pictures (referred to as “cinematographic works”), a retaliating govern-

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property rights without payment of remuneration to EC right holders and without their authorization . . . .”); *id.* ¶ 164 (“In our view, the mechanism envisioned by Ecuador for implementing the suspension of certain sections of the TRIPS Agreement, if authorized by the DSB, would take account of many of our remarks made in the preceding sections.”).

195. Countries retaliating against the United States can point to U.S. law when challenged by the United States.

196. Jonah M. Knobler, *Public Performance Rights in Music Downloads: United States v. ASCAP and Beyond*, J. INTERNET L., June 2008, at 1; *see infra* note 197.

197. *See* 17 U.S.C. § 115 (2006); U.S. COPYRIGHT OFFICE, CIRCULAR 73: COMPULSORY LICENSE FOR MAKING AND DISTRIBUTING PHONORECORDS 1, available at <http://www.copyright.gov/circs/circ73.pdf>. Section 115 does not permit compulsory licensing until after the phonorecord has been distributed to the public in the United States under the authority of the copyright owner. 17 U.S.C. § 115(a)(1). The United States does not allow compulsory licenses for sound recordings. *See* CIRCULAR 73, *supra*, at 2. Compulsory licenses are also not available for soundtracks because the statute defines phonorecords as “material objects in which sounds, *other than those accompanying a motion picture or other audiovisual work*, are fixed.” 17 U.S.C. § 101 (2006) (emphasis added). Finally, the compulsory license is only available if the primary purpose is to distribute the phonorecord to the public for private use (and not, for example, for use in jukeboxes, broadcasting, or other public use). *See* U.S. COPYRIGHT OFFICE, *supra* note 197, at 2.

198. U.S. COPYRIGHT OFFICE, *supra* note 197, at 1.

199. *Id.* at 1–2; *see also* Section 115 of the Copyright Act: In Need of an Update?: Hearing Before the Subcomm. on Courts, the Internet and Intellectual Prop. of the H. Comm. on the Judiciary, 108th Cong. 4–21 (2004) (statement of Marybeth Peters, Register of Copyrights, U.S. Copyright Office).

200. U.S. COPYRIGHT OFFICE, *supra* note 197, at 3.

201. U.S. Copyright Office, Copyright Royalty Rates: Section 115, the Mechanical License, <http://www.copyright.gov/carp/m200a.html> (charting the royalty rate from 2 cents per track in 1909 to the current rate on December 31, 2007); *see also* Erick Schonfeld, *The Copyright Royalty Board Does Nothing: iTunes’ Rates Remain the Same*, TECH CRUNCH, Oct. 2, 2008, <http://www.techcrunch.com/2008/10/02/the-copyright-royalty-board-does-nothing-itunes-rates-remain-the-same/> (reporting that the Copyright Royalty Board decided to leave the royalty rate unchanged in 2008 and for the next five years).

ment should suspend Article 14 and Article 9 of TRIPS.<sup>202</sup> Article 14 protects certain “related” or “neighboring” rights of performers and producers of sound recordings.<sup>203</sup> In particular, Article 14.2 grants producers the “right to authorize or prohibit the direct or indirect reproduction of their phonograms”<sup>204</sup> and Article 14.5 grants performers and producers at least fifty years of protection.<sup>205</sup>

A retaliating country should suspend Article 9 of TRIPS because otherwise the country must comply with Articles 1 to 21 of the Berne Convention, including Article 2, which protects musical compositions and cinematographic works as “literary and artistic work[s]”;<sup>206</sup> Article 7, which grants authors and cinematographic works at least fifty years of protection;<sup>207</sup> Article 9, which guarantees authors the exclusive right to authorize the reproduction of their works “in any form or manner;”<sup>208</sup> and Article 14*bis*, which protects a cinemato-

202. It does not appear that the retaliating government needs to specify individual paragraphs within a TRIPS article that it wants to suspend. Nevertheless, because IP retaliation is based on the suspension of TRIPS “concessions or other obligations,” this Note will highlight some of the specific obligations that a retaliating government must suspend to enact the proposal in this Note.

203. For any given song, copyright protection exists for the underlying musical composition (the music and any accompanying lyrics) and either copyright protection (in the United States) or “neighboring rights” protection (in most foreign countries) for two contributions to the sound recording—the performer’s particular interpretation of the musical composition and the record producer’s production of the particular performance. See PATRY, *supra* note 175, § 23:17 n.2, 23:67; Knobler, *supra* note 196, at 13 (describing how “every recorded track has a double identity: both as a ‘musical work’ and as a ‘sound recording.’” with each “resid[ing] together on the same phonorecord”).

204. TRIPS Agreement, *supra* note 3, art. 14.2.

205. See TRIPS Agreement, *supra* note 3, art. 14.5. If a retaliating country wishes to permit the fixation of live performances—often referred to as “bootlegs”—and the reproduction of such fixations, then it should suspend Article 14.1. See *id.* art. 14.1 (“In respect of a fixation of their performance on a phonogram, performers shall have the possibility of preventing the following acts when undertaken without their authorization: the fixation of their unfixated performance and the reproduction of such fixation.”); see also PATRY, *supra* note 175, § 23:67. Note that Article 14’s coverage of “performers” does not cover audio-visual performers and the contribution they make to audio-visual works. See Adler Bernard, *The Proposed New WIPO Treaty for Increased Protection for Audiovisual Performers: Its Provisions and Its Domestic and International Implications*, 12 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 1089, 1094–95 (2002).

206. The Berne Convention defines “literary and artistic works” to include “musical compositions with or without words” and “cinematographic works to which are assimilated works expressed by a process analogous to cinematography.” Berne Convention, *supra* note 48, art. 2. The Berne Convention does not protect sound recordings. PATRY, *supra* note 175, § 23:17.

207. Berne Convention, *supra* note 48, arts. 7(1), (2).

208. *Id.* art. 9(1) (“Authors of literary and artistic works protected by this Convention shall have the exclusive right of authorizing the reproduction of these works, in any manner or form.”). Note that Article 9 contains an exception to this right of reproduction; under Article 9(2), member countries can permit, by legislation, “the reproduction of [such] works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.” *Id.* art. 9(2). Thus, without suspending TRIPS obligations, Berne members can authorize the reproduction of musical and cinematographic works, among other works, if the reproduction is (1) permitted by legislation; (2) qualifies as a “certain special case[]”; (3) does not conflict with a “normal exploitation of the work”; and (4) does not “unreasonably prejudice” the interests of the author. PATRY, *supra* note 175, § 23:26. This provision may allow a retaliating government to suspend Article 9 of TRIPS without violating Article 9 of Berne. The records of the Berne Convention, however, note that the making of a “very large number of photocopies” *does*

graphic work as an original work and grants the copyright owner “the same rights as the author of an original work, including the rights referred to in [Article 14 of Berne].”<sup>209</sup>

Domestic entities will need multiple licenses to cover any applicable reproduction, distribution, or public performance right, depending on the form of retaliation and the rights granted by the retaliating country’s existing IP statutes. For example, to reproduce and distribute a CD in the United States, an individual or company ordinarily needs to secure a license from a “record company” (which generally owns the sound recording copyright) to reproduce and distribute the sound recording and a license from the “publishing company” (which generally owns the musical composition copyright) to reproduce and distribute the musical composition.<sup>210</sup> If a domestic entity wanted to provide “pure” digital music downloads, it would need the same licenses.<sup>211</sup> A license for a “public performance” would also be needed if the domestic entity wants to provide streaming music over the Internet.<sup>212</sup>

To reproduce computer software, a retaliating country must suspend Article 10 of TRIPS. While Berne does not provide copyright protection for computer software, Article 10 provides that “[c]omputer programs, whether in source or object code, shall be protected as literary works under the Berne Convention (1971).”<sup>213</sup> Amending copyright protection for computer software, unlike for music and books, can thus be done without the risk of violating prior Berne Convention commitments.

To be clear, a retaliating country does not need to blindly release all copyrighted works into the public domain. After the government suspends the relevant TRIPS provisions, the government should amend its domestic IP laws to permit the government to issue the necessary compulsory licenses.<sup>214</sup> This

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conflict with the “normal exploitation of the work.” Patry, *supra* note 175, § 23:26. Therefore, mass reproductions under a compulsory license may not qualify for the Berne exception, even if cross-retaliation potentially qualifies as a “special case.”

209. Berne Convention, *supra* note 48, art. 14*bis*(1).

210. Knobler, *supra* note 196, at 13. In the United States, the record company itself generally licenses their mechanical (reproduction and distribution) and public performance rights. *Id.* By contrast, publishing companies generally license their mechanical rights through the Harry Fox Agency and their public performance rights through one of three “performing rights organizations”: The American Society of Composers, Authors, and Publishers (ASCAP); Broadcast Music, Inc. (BMI); and SESAC, Inc. *Id.*

211. *See id.* at 12–13. The “transmission” of the digital phonogram may also constitute a “public performance” such that the download provider needs to obtain a license for the performance of the musical composition and the sound recording (if the right holder was granted a performance right), although this is a disputed issue. *See id.* at 14. *But see* United States v. Am. Soc’y of Composers, Authors, & Publishers, 485 F. Supp. 2d 438, 446–47 (S.D.N.Y. 2007) (holding that the transmission of a digital music file over the Internet from a server computer to a client computer does not constitute a public performance of the song embodied in the file under the U.S. Copyright Act).

212. *See* Knobler, *supra* note 196, at 14.

213. TRIPS Agreement, *supra* note 3, art. 10.1.

214. *See supra* section II.C (discussing the need to amend domestic IP legislation). As discussed in section II.A, amending domestic copyright legislation may place the country in violation of its obligations under the Berne Convention if the country is a member of Berne.

will effectively suspend the exclusivity of the IP right. The right holder still retains the underlying IP right; it can thus continue reproducing, distributing, and performing the work without the need to go through the government's compulsory licensing regime, albeit with new competition.

With respect to the domestic licensees, the burden should fall on the licensees, as a condition of receiving the compulsory license, to account truthfully to the government for every reproduction they make and distribute. The retaliating government should make these figures publicly available.<sup>215</sup> Like the reporting requirements under securities and tax laws, criminal penalties could be imposed for false or misleading disclosures. Each compulsory license may pre-authorize a certain number of reproductions or reproductions with a certain total value. In the event of a dispute, the licensee should bear the burden of proving that it has not exceeded its quota, due to the limited resources developing countries have to monitor such transactions.

As mentioned earlier in this section, domestic licensees could potentially establish Internet websites that offer downloads of copyrighted music and movies, in addition to selling hard copy CDs and DVDs.<sup>216</sup> For example, domestic entities could use their compulsory licenses to mimic Apple's iTunes music service.<sup>217</sup> If permissible, this greatly increases the scope of the potential retaliation. The permissibility of such a website depends, however, on controlling the number of digital reproductions and on WTO limits on the exportation of these goods.

#### 4. Reproduced Works Limited to the Domestic Market

Article 51 of TRIPS requires that WTO members adopt procedures that enables a right holder "who has valid grounds for suspecting that the importation of . . . *pirated copyright goods* may take place" to lodge an application for customs authorities to suspend the release of the goods into free circulation.<sup>218</sup>

215. These disclosure requirements and the resulting public scrutiny help address two major concerns of the WTO arbitrators in the *EC—Bananas III* and *US—Gambling* cases: (1) transparency and (2) ensuring that the level of retaliation does not exceed the level of nullification or impairment. See, e.g., *US—Gambling*, *supra* note 11, ¶ 5.10 ("[I]t is important that the form that is chosen in order to enact the suspension is such as to ensure that equivalence can and will be respected in the application of the suspension, once authorized. The form should also be transparent, so as to allow an assessment of whether the level of suspension does not exceed the level of nullification.").

216. See, e.g., Martin Vaughan, *Antigua and Barbuda Upping Ante in Gambling Dispute*, CONG. DAILY, June 20, 2007, available at [http://www.nationaljournal.com/congressdaily/dj\\_20070620\\_2.php](http://www.nationaljournal.com/congressdaily/dj_20070620_2.php) (noting that an "attorney involved in the case" suggested that Antigua's retaliation "could include the ability to offer 'authorized, expropriated' digital copies of movies and software for sale at cut-rate prices over the Internet").

217. Some developing countries like Antigua already have expertise with internet-related commerce. See, e.g., *US—Gambling*, *supra* note 11, ¶ 3.111 (discussing the profitability of five remote gambling operators licensed by Antigua).

218. TRIPS Agreement, *supra* note 3, art. 51 (emphasis added). This procedure also applies to "counterfeit trademark goods," which are defined as "any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which

TRIPS defines “pirated copyright goods” as:

any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.<sup>219</sup>

If hard-copy CDs and DVDs are made in the retaliating country under a compulsory license, those goods (1) will have been made without the consent of the right holder<sup>220</sup> and (2) their reproduction would constitute copyright infringement if done in a non-retaliating country of importation. All other WTO members must therefore have the Article 51 procedure in place to stop the goods at the border,<sup>221</sup> even if TRIPS and the DSU do not explicitly prohibit the exportation of goods produced during a period of IP suspension. In addition, the domestic copyright law of prospective importing countries may grant right holders an exclusive right to import or distribute the copyrighted work, thus providing a cause of action for copyright infringement against anyone importing the good.<sup>222</sup> This is why the Ecuador arbitrators encouraged Ecuador to limit the goods to the domestic market.<sup>223</sup>

Similarly, when a user downloads a song or movie from iTunes, the download creates a reproduction of the copyrighted work on the user’s computer.<sup>224</sup>

thereby infringes the rights of the owner of the trademark in question under the law of the country of importation.” *Id.* art. 51 & n.14(a).

219. *Id.* art. 51 n.14(b). The definition includes copies made “directly or indirectly” from a copyrighted work, thereby covering both the original and subsequent copies. CARLOS M. CORREA, *TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS: A COMMENTARY ON THE TRIPS AGREEMENT* 441 (2007).

220. Conceivably, the retaliating government could seize the IP right and thus become the “right holder.” It could then issue the compulsory licenses. If this were the case, the goods produced under the license would not be “copies made without the consent of the right holder” and therefore the goods would not fall within the definition of “pirated copyright goods.” If international exhaustion applied, *see* discussion *infra* note 231, the goods could then be exported to an international exhaustion country without the risk of being stopped at the border under Article 51.

221. *See EC—Bananas III*, *supra* note 10, ¶¶ 155–56. For what it is worth, the retaliating country could export to a *non*-WTO member; currently there are more than thirty non-member “observer governments,” including Russia. *See* Basheer, *supra* note 35, at 43; World Trade Org., *supra* note 16.

222. *See* Basheer, *supra* note 35, at 39. Section 602 of the U.S. Copyright Act, for example, “affords copyright owners a right to prohibit commercial importation into the United States of copyrighted works acquired abroad,” subject to various exceptions. MERGES, *supra* note 116, at 511.

223. *EC—Bananas III*, *supra* note 10, ¶ 156.

224. As one treatise on Internet law explains:

Downloading a copy (or phonorecord) of a copyrighted work from a Web site, a bulletin board or an online service consists of an electronic transmission from the service to the user’s computer, which results after its completion in the creation of a copy of the work on the user’s computer (whether in RAM or on hard or floppy disk). Downloading itself implicates the reproduction right because a copy is made by or at the request or action of the user. The rights of public performance and display are not implicated by downloading. The right of public distribution, however, may be implicated by such electronic transmission.

Unlike iTunes, entities licensed by a retaliating country will be offering works to users in other countries without the authorization of the right holder. For works protected under the importing country's copyright or neighboring rights regime, the download constitutes a copy made without the consent of the right holder that infringes the right holder's exclusive reproduction right.<sup>225</sup> A consumer accessing the Internet from a non-retaliating member country and downloading a work from one of these websites has thus effectively "imported" a "pirated copyright good," except: (1) Article 51's border control procedure likely only applies (as drafted) to physical goods that pass through customs;<sup>226</sup> (2) Article 51 only requires setting up a "procedure . . . to lodge an application" to stop the goods;<sup>227</sup> and (3) even if Article 51 does apply, it may be difficult or impossible for an importing government to effectively prevent the importation of downloaded works.<sup>228</sup> Conceivably, the company could set up a website and only allow downloads from Internet Protocol addresses within the retaliating country, but given the prevalence of anonymous proxy servers that can hide a user's Internet Protocol address,<sup>229</sup> this is unlikely to prevent the importation of unauthorized copies into non-retaliating members.<sup>230</sup>

This effective limitation on exports is likely unaffected by intellectual property law's exhaustion (or "first sale") doctrine, whether the retaliating country seeks to export to a "national" or "international" exhaustion country.<sup>231</sup> Exhaustion

KENT D. STUCKLEY ET AL., INTERNET AND ONLINE LAW § 6.09[4] (2008).

225. Certain works may not enjoy copyright protection in the country of importation. For example, the term of protection may have expired.

226. See Ruse-Khan, *supra* note 3, at 358 & n.205 ("Article 51 TRIPS would arguably not apply in this [Internet] scenario since it only deals with goods in the sense of physical objects which actually can be inspected at the border.").

227. TRIPS Agreement, *supra* note 3, art. 51.

228. See Ruse-Khan, *supra* note 3, at 358 (commenting that "[no] effective border-control mechanism could interfere" with the "automatic worldwide availability" of works "freely downloaded by end-users" and that the downloads and subsequent file-sharing would be "almost impossible to police").

229. See WALLACE WANG, STEAL THIS FILE SHARING BOOK: WHAT THEY WON'T TELL YOU ABOUT FILE SHARING 91-92 (4th ed. 2004) (discussing how to use an anonymous proxy server to hide a user's Internet Protocol address on file sharing networks).

230. Other forms of digital distribution may also be possible. See Abbott, *supra* note 73, slide 8.

231. Intellectual property rights are generally limited to one jurisdiction. Thus, an author or inventor must gain a set of "parallel national [IP rights] covering the same IP in a variety of jurisdictions." Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International Exhaustion and a Few Other Things*, 21 MICH. J. INT'L L. 333, 340-41 (2000). For countries that follow a rule of "national" exhaustion, the exhaustion of IP rights in one jurisdiction does not affect the parallel IP rights in another jurisdiction. *Id.* at 341. The right holder can therefore "separately invoke each parallel [IP rights] in [each] jurisdiction against the import, use, or resale of even authorized products first sold in another jurisdiction." *Id.* By contrast, in countries that follow a rule of "international" exhaustion, the exhaustion of IP rights in any other jurisdiction exhausts the parallel IP rights in the country's own jurisdiction. See *id.* Australia, Japan, Singapore and the United Kingdom, among other countries, have accepted principles of international exhaustion. See Jung Hur & Yohanes E. Riyanto, *Tariff Policy and Exhaustion of Intellectual Property Rights in the Presence of Parallel Imports*, 58 OXFORD ECON. PAPERS 549, 550 (2006). TRIPS expressly declines to address these two competing views on exhaustion because the parties could not come to agreement on the issue during the TRIPS negotiations. Interview with Jay Thomas, Professor of Law, Georgetown University Law Center, in Wash., D.C. (Feb. 25,

tion is a complicated area of law, and the scope of this Note only permits a few brief comments. For present purposes, the “first sale” of a good embodying an IP right by or under the authority of the right holder “exhausts” the right holder’s right to control the disposition of the good.<sup>232</sup> For example, the sale of a textbook by or under the authority of the copyright holder permits the buyer to resell (but not recopy) the particular copy—either domestically or in international exhaustion countries where any right of distribution and importation has been exhausted—without the authorization of the right holder.<sup>233</sup>

During a period of IP suspension, a producer in the retaliating country will make a first sale of the good that is lawful under domestic and international law and purchasers will pay for the lawfully made copies. Unlike the traditional first sale doctrine, however, the first sale here is (1) without the authorization of the right holder and (2) without any compensation to the right holder. One could argue, therefore, that this first sale should not produce international exhaustion.<sup>234</sup> Even if a prospective importing country extended exhaustion to these goods, the goods would still likely be considered “pirated copyright goods” that, under Article 51 of TRIPS, an international exhaustion WTO member must stop at the border (if petitioned to do so);<sup>235</sup> exhaustion does not affect the right

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2008); see TRIPS Agreement, *supra* note 3, art. 6 (“For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”).

232. James B. Kobak, Jr., *Exhaustion of Intellectual Property Rights and International Trade*, 5 GLOBAL ECON. J. 1, 1 (2005), available at: <http://www.bepress.com/gej/vol5/iss1/5/>. Note that the Berne Convention only requires a right of distribution for cinematographic works. See Marian Nash (Leich), *Contemporary Practice of the United States Relating to International Law*, 92 AM. J. INT’L L. 54, 56 (1998).

233. See, e.g., 17 U.S.C. § 109(a) (2006) (The first sale doctrine in the United States provides that “[n]otwithstanding the provisions of section 106(3) [granting the exclusive right to distribute to the public by sale, transfer, rental, lease or lending], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord”); see also *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 152 (1998) (“The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.”); FREDERICK M. ABBOTT, INST. FOR SUSTAINABLE DEV., PARALLEL IMPORTATION: ECONOMIC AND SOCIAL WELFARE DIMENSIONS 4 (2007), available at [http://www.iisd.org/pdf/2007/parallel\\_importation.pdf](http://www.iisd.org/pdf/2007/parallel_importation.pdf).

234. Under the “legitimacy theory,” international exhaustion may be available to goods produced and sold “in any legitimate manner,” such as during a period of IP retaliation, even without the consent of, or a reward to, the right holder. See CORREA, *supra* note 219, at 86; Ruse-Khan, *supra* note 3, at 355–56. This is supported by the fact that two earlier drafts of Article 6 of TRIPS only allowed exhaustion (with respect to the use, sale, importation or other distribution of goods) for goods “put on the market by or with the consent of the right holder,” but this limitation was dropped in the final version. GERVAIS, *supra* note 1, at 112 (quoting the “Brussels Draft” and the draft of July 23, 1990 (W/76)); see Ruse-Khan, *supra* note 3, at 355–56 & n.194 (arguing that the removal indicates the drafters’ intent not to limit exhaustion to goods placed on the market by or with the consent of the right holder). The 2001 Doha Declaration on TRIPS and Public Health also provides that WTO members are free to establish their own exhaustion regime “without challenge.” World Trade Organization, Ministerial Declaration of 14 November 2001, ¶ 5(d), WT/MIN(01)/DEC/2, 41 I.L.M. 746 (2002); Ruse-Khan, *supra* note 3, at 355.

235. See Chiappetta, *supra* note 231, at 341 n.32. On the other hand, Article 51 uses the term “pirated” copyright goods; therefore, it could be argued that Article 51 was not intended to cover

holder's exclusive right of reproduction, and thus, the goods are still copies that would constitute an infringement of a copyright or a related right in the country of importation.

##### 5. Other Considerations: Which Works To Target, How To Value Each Reproduction, and the Legal Rights of Purchasers After the Period of IP Suspension

Whether the good is reproduced in hard copy or electronic form, the retaliating government will need to pay close attention to which works it targets. A particular work may have multiple right holders (for example, the author of the musical composition, the producer, and the performer), and these right holders may be nationals of different countries.<sup>236</sup> The Ecuador arbitrators specifically cautioned that Ecuador must “carefully consider[]” such a situation “so as not to adversely affect right holders who cannot be regarded as nationals of those 13 EC member states.”<sup>237</sup> The retaliating government should permit, however, the licensing of all works whose rights are held entirely by nationals of the violating state, rather than arbitrarily discriminating against, for example, particular record companies.<sup>238</sup>

Difficult issues also exist over how a retaliating country will value the individual reproductions. The value chosen will greatly impact the scope of the retaliation.<sup>239</sup> For example, the retaliating government could value each work produced and sold under a compulsory license like a displaced sale from the copyright holder, taking into account either the normal price of the good in the

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legitimate copies produced under WTO authorization. *See* Ruse-Khan, *supra* note 3, at 357 & n.201. An importing country could also potentially provide in its domestic law that copies made pursuant to an IP suspension regime do not infringe a copyright holder's exclusive reproduction right, based on the ability to provide limited exceptions to exclusive copyright rights under Article 13 of TRIPS. *Cf. id.* at 337 (noting that cross-retaliation generally could be used to “extend exceptions in copyright beyond the strict limits of the three step test in Article 13 TRIPS”). If the importing country did so, and the making of the copies would not have “constituted an infringement of a copyright or a related right under the law of the country of importation,” as required to satisfy the definition of “pirated copyright goods,” Article 51's limitation on their export may not apply.

236. *EC—Bananas III*, *supra* note 10, ¶ 144. WTO members owe TRIPS obligations to the “nationals of other Members.” *See* TRIPS Agreement, *supra* note 3, art. 1.3; *see also EC—Bananas III*, *supra* note 10, ¶¶ 140–42. TRIPS defines “nationals of other Members” as:

In respect of the relevant intellectual property right . . . those natural or legal persons that would meet the criteria for eligibility for protection provided for in the Paris Convention (1967), the Berne Convention (1971), the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits, were all Members of the WTO members of those conventions.

TRIPS Agreement, *supra* note 3, art. 1.3.

237. *EC—Bananas III*, *supra* note 10, ¶ 144.

238. *Cf.* Subramanian & Watal, *supra* note 13, at 411 (noting that “general international rules [require] that takings must be non-discriminatory”).

239. In calculating the amount of the retaliation, the Ecuador arbitrators suggested that Ecuador consider the “actual and potential effects” from the suspension of IP rights. *EC—Bananas III*, *supra* note 10, ¶ 160 n.52.

retaliating state or the lost profits to the copyright holder.<sup>240</sup> The number of sales may be misleading, however, because sales may not have occurred but for the lower price presumably charged for the suspension good. Perhaps the retaliating state could discount the number of suspension sales to account for any increase. Using a higher, more conservative figure reduces the risk of a later WTO arbitration for exceeding the authorized level of retaliation, but also reduces the potential welfare-enhancing benefits of the retaliation.

Ecuador's proposal in 2000 valued the reproduction of an individual sound recording at the average "related right value" of a "new, commercially most interesting sound recording" in Europe, as estimated by the International Federation of the Phonographic Industry (IFPI).<sup>241</sup> With respect to Antigua's authorization, William Patry commented that, "[o]ne wonders whose figures Antigua will use to come to that [\$21 million] amount: the IIPA's ludicrously inflated figures, where every estimated unauthorized copy represents a 1:1 displacement of a sale at U.S. prices, or something else of Antigua's own concoction? I am betting on the latter."<sup>242</sup>

As an alternative, the retaliating government could value the goods based on the lost royalty payments that a domestic entity would otherwise have to pay the right holder to reproduce, distribute, and/or perform the works. Apple's iTunes music service offers one model for how this could work. Apple generally charges 99 cents to download one digital rights management (DRM)-restricted track.<sup>243</sup> Of this amount, Apple pays 9.1 cents to music publishers or songwriters for the mechanical license to reproduce and distribute the musical composition<sup>244</sup> and roughly 61 cents per track for licenses to reproduce and distribute the sound recording and licenses to perform thirty-second samples of a song.<sup>245</sup> The Article 22.5 arbitrators in *US—Section 110(5) of the US Copyright Act*

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240. See, e.g., Basheer, *supra* note 35, at 36–39.

241. *EC—Bananas III*, *supra* note 10, ¶ 161; Pruzin, *supra* note 191, at 530.

242. See Posting of William Patry to The Patry Copyright Blog, A Delicious Irony in Using IP as a Trade Weapon, <http://williampatry.blogspot.com/search?q=antigua> (Dec. 24, 2007, 15:41 EST). IIPA stands for the International Intellectual Property Alliance, a private-sector coalition representing "U.S. copyright-based industries in bilateral and multilateral efforts to improve international protection of copyrighted materials." Int'l Intellectual Prop. Alliance, Description of the IIPA, <http://www.iipa.com/aboutiipa.html> (last visited Feb. 20, 2009).

243. See Jonah M. Knobler, *Performance Anxiety: The Internet and Copyright's Vanishing Performance/Distribution Distinction*, 25 *CARDOZO ARTS & ENT. L.J.* 531, 592–93 (2007).

244. See Jenna Hentoff, *Compulsory Licensing of Musical Works in the Digital Age: Why the Current Process Is Ineffective & How Congress Is Attempting To Fix It*, 8 *J. HIGH TECH. L.* 113, 126 n.87 (2008); Schonfeld, *supra* note 201.

245. See W. Jonathan Cardy, *Uber-Middleman: Reshaping the Broken Landscape of Music Copyright*, 92 *IOWA L. REV.* 835, 852–53 (2007); Hentoff, *supra* note 244, at 126 n.81; Erick Schonfeld, *Why the Online Music Industry Should Move to a Rev-Share Model*, *TECH CRUNCH*, Oct. 1, 2008, <http://www.techcrunch.com/2008/10/01/why-the-online-music-industry-should-move-to-a-rev-share-model/> ("Apple pays 70 cents from each track sold to the record companies (which then pay the music publishers their cut)."); Eliot Van Buskirk, *Apple Threatens iTunes Shutdown over Royalty Dispute*, *WIRED*, Oct. 1, 2008, [http://www.wired.com/listening\\_post/2008/10/thursdays-copyr/](http://www.wired.com/listening_post/2008/10/thursdays-copyr/).

followed a similar approach.<sup>246</sup> At the very least, a retaliating state should consider following Apple's use of a single amount per track (and apply this to whole albums, television shows, and movies) because this helps when calculating the total value of the retaliation.<sup>247</sup>

For additional benchmarks, the retaliating government could also look to (1) the amount of any voluntarily negotiated royalty;<sup>248</sup> (2) values computed in connection with copyright infringement lawsuits; or (3) IP valuations done in connection with mergers and acquisitions and the securitization of royalty streams from copyrighted works.<sup>249</sup>

The ultimate decision, of course, rests with the retaliating government and will be based on multiple factors, including the country's tolerance for risk and the amount of retaliation authorized in the particular dispute. Antigua, for example, may choose a different approach when authorized to retaliate up to \$21 million per year compared with its request to impose \$3.4 billion in retaliation.<sup>250</sup> No matter what method a retaliating government chooses to value its retaliation, the burden falls on the violating state to challenge that method in a subsequent WTO arbitration.<sup>251</sup>

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246. See Award of the Arbitrators, *United States—Section 110(5) of the US Copyright Act—Recourse to Arbitration Under DSU Article 25*, WT/DS160/ARB25/1 (Nov. 9, 2001) [hereinafter *US—Copyright Act Arbitration*]. To oversimplify, the U.S. Copyright Act exempted certain U.S. businesses from paying copyright royalties to EC copyright holders for the performance of their works in bars and restaurants. See 17 U.S.C. § 110(5)(B) (2006); World Trade Org., Dispute DS160: United States—Section 110(5) of the US Copyright Act, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds160\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds160_e.htm). The panel found that section 110(5)(B) did not meet the requirements of Article 13 of TRIPS and was thus inconsistent with Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971), incorporated into TRIPS by TRIPS Article 9.1. Panel Report, *US—Section 110(5) of the US Copyright Act*, ¶ 7.1, WT/DS160/R (June 15, 2000). A subsequent arbitration found that the U.S. violation resulted in the nullification or impairment of € 1,219,900 in EC benefits per year. *US—Copyright Act Arbitration*, *supra*, ¶ 5.1. The U.S. law is roughly analogous to the United States suspending its obligations under Article 9 of TRIPS. In calculating the level of nullification or impairment of benefits from the U.S. measure, the Article 22.5 arbitrators agreed that the value of the “suspended” EC performance rights should be based on the amount that EC right holders would realistically have been paid in copyright royalties by two collective management organizations. See Gene M. Grossman & Petros Mavrodis, *United States—Section 110(5) of the US Copyright Act, Recourse to Arbitration under Article 25 of the DSU: Would've or Should've? Impaired Benefits Due to Copyright Infringement*, 2 *WORLD TRADE REV.* 233, 237 (2003); WorldTradeLaw.net, Dispute Settlement Commentary (DSC) for *US—Copyright (25)*, at 6, <http://www.worldtradelaw.net/dsc/database/trips.asp>. The United States and European Union subsequently settled the dispute by mutual agreement. See World Trade Org., Dispute DS160: United States—Section 110(5) of the US Copyright Act, *supra*.

247. A set value for each track and album avoids difficulties associated with tracking reproductions of individual songs across different platforms. See Katherine L. McDaniel, *Accounting for Taste: An Analysis of Tax-and-Reward Alternative Compensation Schemes*, 9 *TUL. J. TECH. & INTEL. PROP.* 235, 254 (2007) (analyzing this difficulty in the absence of a single, standardized number identifying each individual track). A set amount is possible because the retaliating government does not need to actually compensate individual right holders based on the reproduction and distribution of their works.

248. See Basheer, *supra* note 35, at 46.

249. See Abbott, *supra* note 73, slide 3.

250. See *US—Gambling*, *supra* note 11, ¶ 1.5

251. See *id.* ¶ 5.12 (“Like the arbitrators in *EC—Hormones (US) (Article 22.6—EC)*, *US—1916 Act (EC) (Article 22.6—US)*, and *US—Byrd Amendment (Article 22.6—EC)*, we also note that the United

Finally, music, films, and software programs reproduced and sold under these licenses should not be considered legally identical to goods lawfully purchased from the right holder because this would result in some degree of international exhaustion without the right holder receiving any compensation.<sup>252</sup> The retaliating state should provide that goods produced and sold during the suspension period can be used and re-sold after the suspension period.<sup>253</sup> Like goods purchased from the right holder, the copies cannot be re-copied during or after the suspension period because: (1) only compulsory licensees can reproduce the works, (2) this rule helps to quantify and limit the value of the suspension, and (3) after the suspension period TRIPS and the DSU will require that the retaliating country again protect the right holders' exclusive rights.<sup>254</sup>

#### CONCLUSION

While cross-retaliation provides a unique tool for small and developing countries, few people believe that any country will actually suspend the IP rights of U.S. or European right holders. This Note seeks to offer a concrete proposal that is legal, effective, and narrowly circumscribed. In particular, the retaliating government should consider issuing temporary compulsory licenses for patented pharmaceuticals and copyrighted works, but resist suspending its trademark obligations under TRIPS. Unlike traditional retaliation, this proposal can enhance the welfare of the retaliating state. The ultimate goal of this proposal, however, is to make cross-retaliation a sufficiently credible threat that the violating state voluntarily chooses to bring itself into compliance with its WTO obligations before the retaliating state ever suspends any intellectual property right.

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States may have recourse to the appropriate dispute settlement procedures in the event that it considers that the level of concessions or other obligations suspended by Antigua exceeds the level of nullification or impairment we have determined for purposes of the award." (footnotes omitted).

252. See discussion *supra* section III.C.4.

253. See Ruse-Khan, *supra* note 3, at 353–54 (noting that Article 6 of TRIPS “guarantees each WTO Member freedom to determine the domestic concept on exhaustion of IP rights” and thus “allow the further re-sale of goods already produced” during a period of IP suspension).

254. See Abbott, *supra* note 71, at 433 (posing the question whether goods produced during a period of suspension could be recopied after the suspension period). Forms of DRM may help control how purchasers use these goods. See Abbott, *supra* note 73, slide 8.