

## SECURING COMPLIANCE WITH THE TRIPS AGREEMENT AFTER *US v INDIA*

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### ABSTRACT

The different developmental circumstances of the industrialized and developing countries call for different approaches to intellectual property rights protection. While increasingly high levels of protection may (or may not) be appropriate to the industrialized economies, developing country economies are more likely to benefit from strategies and rules which encourage building upon existing stocks of knowledge. TRIPS Agreement standards provide sufficient 'wiggle room' to allow developing countries to pursue pro-competitive strategies, while still acting consistently with the TRIPS Agreement requirements of national and most favored nation treatment. The decision of the WTO Appellate Body in the India-Mailbox case was a critical step in affirming the WTO-consistency of pursuing national and regional policies which take advantage of the absence of strict harmonization of IPRs standards at the worldwide level. The India-Mailbox decision suggests that the WTO will accord substantial deference to national and regional rules which manifest good faith compliance with the basic standards of the TRIPS Agreement. Developing countries that adopt pro-competitive IPRs-related strategies may move faster along the technology curve than countries that follow more protectionist strategies.

### INTRODUCTION

It is now common knowledge that the TRIPS component of the Agreement Establishing the World Trade Organization (WTO)<sup>1</sup> represented in 1994 a revolution in international intellectual property law. The momentum of the multilateral negotiations during the Uruguay Round carried the developed countries well beyond their initial goal, which was to limit the capacity of firms in developing countries to make and export free-riding copies of high-tech goods produced at great cost in the developed countries. Instead, by

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<sup>1</sup> See Marrakech Agreement Establishing the World Trade Organization [hereinafter WTO Agreement], Annex 1C: Agreement on Trade-Related Aspects of Intellectual Property Rights, 15 April 1994 [hereinafter TRIPS Agreement], 33 ILM 81 (1994).

the time the Dunkel draft appeared in 1991,<sup>2</sup> the developed countries' strategic goal was to impose a comprehensive set of intellectual property standards on the rest of the world. As ultimately enacted, these were not 'minimum' standards of intellectual property protection in the classical sense of the term; rather, they collectively expressed most of the standards of protection on which the developed countries could agree among themselves.<sup>3</sup> Moreover, these relatively high substantive standards were reinforced by new and heretofore untried procedural standards mandating minimum levels of enforcement in all member countries<sup>4</sup> and by the reformed dispute-settlement machinery that the WTO Agreement had otherwise established.<sup>5</sup>

To understand just how revolutionary this Agreement was, one need only consider the extent to which the new enforcement procedures potentially intrude upon the sovereign powers of nation states. Imagine, for example, how Congress might have reacted in the past if other countries had tried to tell the United States when injunctions were to be made available in intellectual property cases, what the scope of US discovery and appellate review procedures should be, what actions to criminalize, and how US Customs agents should treat cultural and manufactured goods at the point of entry to this country. Yet, that is precisely what the TRIPS Agreement does in considerable detail,<sup>6</sup> besides laying down detailed international minimum standards concerning copyrights and related rights, trademarks, geographical

<sup>2</sup> See Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, GATT doc. WTN.TNC/W/FA (20 December 1991); D. Gervais, *The TRIPS Agreement: Drafting History and Analyses* 10–28 (1998).

<sup>3</sup> See, e.g., H. Ullrich, 'Technology Protection According to TRIPS: Principles and Problems', in F.-K. Beier and G. Schricker (eds), *From GATT to TRIPS: The Agreement on Trade-Related Aspects of Intellectual Property Rights* (1996) 357, 372–388; J. H. Reichman, 'Universal Minimum Standards of Intellectual Property Protection under the TRIPS Component of the WTO Agreement', 29 *Int'l Lawer* 345, 345–347, 381–388 (1995) [hereinafter *Universal Minimum Standards*]; G. E. Evans, 'Intellectual Property as a Trade Issue: The Making of the Agreement on Trade-Related Aspects of Intellectual Property Rights', *World Competition: L and Econ Rev*, December 1994, at 137 et seq.

<sup>4</sup> See TRIPS Agreement, above n. 1, Articles 41–61; J. H. Reichman, 'Enforcing the Enforcement Procedures of the TRIPS Agreement', 37 *U Va J Int'l L* 335, 340–351 (1997) [hereinafter *Enforcement Procedures*]; T. Dreier, 'TRIPS and the Enforcement of Intellectual Property Rights', in F.-K. Beier and G. Schricker (eds), *From GATT to TRIPS: The Agreement on Trade-Related Aspects of Intellectual Property Rights* 248–328 (1996).

<sup>5</sup> See TRIPS Agreement, above n. 1, Articles 63–64; 'Understanding on Rules and Procedures Governing the Settlement of Disputes', 15 April 1994, WTO Agreement, above n. 1, Annex 2, 33 *ILM* 1226 (1994) [hereinafter *DSU*]; see also F. M. Abbott, 'WTO Dispute Settlement and the Agreement on Trade-Related Aspects of Intellectual Property Rights', in E.-U. Petersmann (ed.), *International Trade Law and the GATT/WTO Dispute Settlement System* 387–409 (1997); R. Cooper Dreyfuss and A. F. Lowenfeld, 'Two Achievements of the Uruguay Round: Putting TRIPS and Dispute Settlement Together', 37 *U Va J Int'l L* 275 (1997) [hereinafter *Dreyfuss and Lowenfeld*]; P. E. Geller, 'Intellectual Property in the Global Marketplace: Impact of TRIPS Dispute Settlement?', 29 *Int'l Law* 99 (1995).

<sup>6</sup> See above n. 4.

indications of origin, industrial designs, patents, integrated circuit designs, and trade secrets.<sup>7</sup>

It is true that the developing countries obtained some important trade concessions in exchange for these high standards of intellectual property protection. These latter standards may gradually benefit many developing countries by stimulating more foreign investment, more transfers of better technology, and more local innovation than before.<sup>8</sup> Nevertheless, the TRIPS standards seem likely to impose heavy social costs on most developing countries in the short and medium terms, if only because these countries will now have to pay more in order to acquire the tools they need to overcome the technology gap.<sup>9</sup>

In the long term, the TRIPS Agreement should give rise to a worldwide balance between legal incentives to create and the rights of second comers to compete. This means, as I have elsewhere pointed out, that '[h]ow both developed and developing countries implement the TRIPS Agreement will determine the future level of competition on the global market for knowledge goods that emerged from the Uruguay Round'.<sup>10</sup>

## 1. A PRO-COMPETITIVE STRATEGY FOR THE DEVELOPING COUNTRIES

This exciting prospect has led me to propose a concrete, detailed strategy for implementing the TRIPS Agreement that could enable most developing countries to lessen the social costs and increase the gains likely to accrue from stronger international intellectual property protection.<sup>11</sup> In my view, the developing countries should strive to achieve the maximum degree of competition in their domestic markets that is consistent with a good faith implementation of the international minimum standards of intellectual property protection under the TRIPS Agreement. In so doing, they will find that the

<sup>7</sup> See TRIPS Agreement, above n. 1, Articles 9–39; J. H. Reichman, *Universal Minimum Standards*, above n. 3, at 351–381 (1995).

<sup>8</sup> See, e.g., M. J. Adelman and S. Baldia, 'Prospects and Limits of the Patent Provision in the TRIPS Agreement: The Case of India', 29 *Vand J Transnat'l L* 507 (1996); K. E. Maskus and M. Penubarti, 'How Trade-Related Are Intellectual Property Rights?', 39 *J Int'l Econ* 227–248 (1995).

<sup>9</sup> See, e.g., United Nations Conference on Trade and Development (UNCTAD), 'The TRIPS Agreement and Developing Countries', 15–20 (UN Pub. 96.II.D.10, 1996) [hereinafter UNCTAD, *TRIPS and Developing Countries*] ('Costs and Benefits Stemming from the TRIPS Agreement'); A. S. Oddi, 'TRIPS: Natural Rights and a "Polite Form of Economic Imperialism,"' 29 *Vand J Transnat'l L* 415 (1996); M. A. Hamilton, 'The TRIPS Agreement: Imperialistic, Outdated, and Overprotective', 29 *Vand J Transnat'l L* 613 (1996); C. A. Primo Braga, 'Trade-Related Intellectual Property Issues: The Uruguay Round Agreement and Its Economic Consequences', in W. Martin and A. Winter (eds), *The Uruguay Round and Developing Countries* (1996).

<sup>10</sup> J. H. Reichman, 'From Free Riders to Fair Followers: Global Competition Under the TRIPS Agreement', 29 *NYU J Int'l L and Pol* 11, 14 (1996/97) [hereinafter *Free Riders to Fair Followers*]. 'In principle, the TRIPS Agreement should replace a patchwork system of territorial regulation . . . with a global competitive framework built around the international minimum standards of protection for specified intellectual property creations.' *Id.* at 14–15 (citing authorities).

<sup>11</sup> See *id.*, at 24–26.

international conventions still leave them plenty of 'wiggle room' and 'grey areas' in which to exploit the still unharmonized bulk of the domestic intellectual property laws.

Underlying my proposed strategy is a recognition that the developed countries, since the 1980s, have embarked upon a high protectionist trend, expressed in terms of ever stronger and more comprehensive intellectual property rights and of ever weaker antitrust laws, which favors creators and investors at the expense of consumers and competitors.<sup>12</sup> This high protectionist trend may backfire on the developed countries because the chronic state of overprotection to which it leads tends to misallocate scarce resources devoted to research and development and to reduce the efficiencies that flow from reverse engineering and from cumulative, sequential innovation generally.<sup>13</sup> Professor Rochelle Cooper Dreyfuss of New York University recently organized a symposium on this very theme,<sup>14</sup> and I trust that the papers it generated will lead to some rethinking about the dangers inherent in a short-sighted and largely defensive proliferation of intellectual property rights aimed at preserving the dominant position of big technology-exporting firms.

Whatever the relative advantages or disadvantages of this high protectionist strategy turn out to be, it seems clear that, when implementing the new international minimum standards that the TRIPS Agreement mandates, most developing countries stand to gain from a more pro-competitive balance of public and private interests than currently prevails in the leading developed countries. In the early phases of their own economic development, both the US and Japan pursued a similar strategy with respect to other, better developed countries. On the whole, I expect that a comparatively lower level of intellectual property protection in the developing countries (within the confines that the TRIPS Agreement still permits) should yield positive results so long as the gains flowing from greater competition at home and from more competitively priced products to be exported abroad exceed the potential losses likely to accrue from lower incentives to innovate and to invest in the developing countries' own domestic markets.

<sup>12</sup> For details of this high protectionist strategy and its policy logic, see above n. 10, at 108–114. See also H. Ullrich, 'TRIPS: Adequate Protection, Inadequate Trade, Adequate Competition Policy' [hereinafter Ullrich, TRIPS], in J. O. Haley and H. Iyori (eds), *Antitrust: A New International Trade Remedy?* 153, 184–207 (1995) (discussing relaxation of antitrust laws in EU countries to facilitate joint research by natural competitors).

<sup>13</sup> See, e.g., D. B. Andreusch, 'Intellectual Property Rights: New Research Directions', in H. Albach and S. Rosenkranz (eds), *Intellectual Property Rights and Global Competition: Towards a New Synthesis* 35, 51–70 (1995) [hereinafter *Intellectual Property Rights and Global Competition*]; D. Foray, 'Knowledge Distribution and the Institutional Infrastructure: The Role of Intellectual Property Rights', in H. Albach and S. Rosenkranz (eds), *Intellectual Property Rights and Global Competition*, 77, 87–112 ('The New Innovative Regime and the Crisis Facing the Intellectual Property System'); S. Scotchmer, 'Standing on the Shoulders of Giants: Cumulative Research and the Patent Law', 5 *J Econ Perspective* 29–41 (1991).

<sup>14</sup> See papers presented to the Engelberg Center Conference on 'Intellectual Products: Novel Claims to Protection and Their Boundaries,' NYU Law School, Florence, Italy, June 25–28 (1998) [hereinafter *Engelberg Center Conference*].

One should not, in any sense, construe my proposal as a program for free-riding, which is often counter-productive and would progressively tend to violate express norms of the TRIPS Agreement. I do advocate a program of organized and sustained 'fair following', in which every effort is made to exploit spillovers, leakage, and the products of reverse engineering by honest means.<sup>15</sup>

Facilitating this project is the realization that even the developed countries still disagree among themselves concerning the proper formulation of about as many fundamental intellectual property norms as those that attained some degree of consensus during the Uruguay Round. As I have elsewhere shown in detail, the domestic intellectual property laws, including both patent and copyright laws, remain largely unharmonized with respect to crucial doctrinal issues, especially issues bearing on the scope of protection and the field of permissible exceptions and limitations, which significantly affect the balance between incentives to create and opportunities for free competition in single countries.<sup>16</sup> Moreover, these differences and disagreements are especially palpable with respect to the hottest new technologies, including computer programs, databases, digitized telecommunications networks, and biogenetic engineering.<sup>17</sup> These technologies alone probably attract a greater stream of investment revenues today than that which flows to the traditional products of innovation that the TRIPS norms more squarely cover. In other words, the harmonizing achievements of the TRIPS Agreement, remarkable as they are, represent a glass that is either half full or half empty, depending on one's point of view.

How single states mesh these 'grey areas' in their domestic intellectual property laws with the black letter norms set out in the TRIPS Agreement will initially determine the level of competition in single markets and will eventually determine the regulatory balance for the global market as a whole. Given the high protectionist trend underway in the developed countries, I contend that 'the logical course of action for the developing countries in implementing their obligations under the TRIPS Agreement is to shoulder the pro-competitive mantle that the developed countries have increasingly abandoned'.<sup>18</sup>

On the integrated world market that the WTO Agreement seeks to establish, the defense of the public interest in free competition thus falls by default to the less advanced countries and to countries in transition. In effect,

<sup>15</sup> See above n. 13. See also P. Cohendet *et al.*, 'Technological Learning, Economic Networks and Innovation Appropriability', in D. Foray and C. Freeman (eds), *Technology and the Wealth of Nations* 66 (1993); L. Soete, 'Opportunities for and Limitations to Technological Leapfrogging', in *Technology, Trade Policy, and the Uruguay Round*, UN Conference on Trade and Development, UNCTAD/TTP/23 (1990); R. C. Levin *et al.*, 'Appropriating the Returns from Industrial Research and Development', 1987 Brookings Papers on Economic Activity 783, 784.

<sup>16</sup> See generally, above n. 10, 26-86.

<sup>17</sup> See *id.*, at 35-41 (new technologies in general), 48-51 (electronic information tools).

<sup>18</sup> See above n. 10, at 25.

decision-makers in these latter countries now speak for the pro-competitive forces within the developed countries that have temporarily lost their ability to influence the direction of public policy. In taking over the pro-competitive position within orthodox intellectual property discourse, the developing countries can promote consumer welfare even in those developed countries where the interests of both consumers and small or medium-sized innovators are increasingly held hostage to the political influence of oligopolistic combinations that use intellectual property rights to expand market power.<sup>19</sup>

Let me emphasize that this pro-competitive strategy is primarily suitable for the developing countries, as distinct from least-developed countries (LDCs), which enjoy a longer transition period in which to comply with the TRIPS standards.<sup>20</sup> Least-developed countries may also benefit from waivers and hardship clauses elsewhere provided in the WTO Framework Agreement.<sup>21</sup> With specific regard to the developing countries, I have outlined a five-pronged approach to effectuating a pro-competitive strategy in the following terms.

First, the developing countries may tilt their domestic patent, copyright and related intellectual property laws to favor second comers, especially local competitors, rather than distant proprietary rights holders, to the full extent that good faith compliance with TRIPS standards still permits.<sup>22</sup> Second, and closely related, the developing countries should distance themselves from protectionist measures being adopted in the developed countries, and they may use tailor-made applications of competition law to curb the adverse effects of these measures on their domestic economies and to limit the abusive exercise of market power in general.<sup>23</sup> Third, developing countries may institute incentive structures likely to stimulate subpatentable innovation at the local level with fewer anti-competitive effects than the hybrid regimes of exclusive property rights proliferating in the developed countries.<sup>24</sup> Fourth,

<sup>19</sup> Id.

<sup>20</sup> See TRIPS Agreement, above n. 1, Articles 65–66; A. Otten and H. Wager, 'Compliance with TRIPS: The Emerging World View', 29 Vand J Int'l L 391, 407–09 (1996).

<sup>21</sup> See, e.g., WTO Agreement, above n. 1, Article XI (2); TRIPS Agreement, above n. 1, Article 66(1); J. H. Reichman, Universal Minimum Standards, above n. 3, at 353, 353 n. 49, 386, 386 n. 316.

<sup>22</sup> For details, see above n. 10, at 29–51 (noting that states must respect the national treatment requirements of TRIPS, Article 3, and the MFN requirements of Article 4).

<sup>23</sup> See id., at 52–58 ('Using Competition Law to Curb the Abuse of Market Power'); see also E. Fox, 'Trade, Competition, and Intellectual Property: Trips and Its Antitrust Counterparts', 29 Vand J Transnat'l L 481 (1996); H. Ullrich, 'Antitrust and Intellectual Property: Achieving an International Balance Through Harmonization?', paper presented to the Engelberg Center Conference, above n. 14.

<sup>24</sup> See above n. 10, at 59–62 (natural lead time under classical trade secret law), 62–67 (artificial lead time under *sui generis* intellectual property laws), 67–75 (toward a general purpose innovation law on modified liability principles). In my view, developing countries should not mindlessly multiply *sui generis* exclusive property rights to address the risk of market failure that arises when small-scale, cumulative or merely incremental innovation fits imperfectly within the patent and copyright paradigms, as the EU and now the US have increasingly done. See, e.g., J. H. Reichman and Pamela Samuelson, 'Intellectual Property Rights in Data?', 50 Vand L Rev 51, 72–113 (1997) (tracing

the developing countries may resist any further elevation of international intellectual property standards beyond the levels set in the TRIPS Agreement unless they are offered countervailing trade concessions or until their own technological prowess justifies the social costs of such regimes.<sup>25</sup> Fifth, the developing countries should exploit new means of acquiring scientific and technical knowledge by resorting to the global information infrastructure, and they should potentiate both their physical capacity to access such knowledge and the intellectual skills to process this information.<sup>26</sup>

Because I have elsewhere elaborated upon these topics in considerable detail,<sup>27</sup> I will not develop them further here. However, readers are reminded that the developing countries today operate under widely differing economic and technical conditions and that there is no single plan or framework of implementation that fits them all. Each country must assess its own strengths and weaknesses and adapt its intellectual property policies to its own conditions and to the needs of its own national system of innovation.<sup>28</sup>

In this connection, most developing countries will find it relatively easier to determine how to exploit the 'wiggle room' left to domestic law under the international minimum standards of the TRIPS Agreement than to reconcile that wiggle room with such other policy goals as the encouragement of foreign investment and of transfers of technology, and the stimulation of local innovation. Because states must treat foreigners on a par with their own nationals,<sup>29</sup> moreover, developing countries need to avoid pinching their own innovators' toes when limiting the protection afforded distant foreign rights holders.

Nevertheless, the expenditure of time, money and effort on adapting the agreed intellectual property norms to a given country's own development needs should yield greater dividends in most cases than a strategy of simply

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evolution of *sui generis* laws to protect noncopyrightable databases). Rather, the developing countries should experiment with a general purpose innovation law, built on modified liability principles, that would promote investment in incremental, subpatentable innovation without creating barriers to entry and without fragmenting the public domain in ways that private contracts cannot feasibly reconstruct. For details, see J. H. Reichman, 'Solving the Green Tulip Problem: Packaging Rights in Subpatentable Innovation', paper presented to the Engelberg Center Conference, above n. 14; J. H. Reichman, 'Legal Hybrids Between the Patent and Copyright Paradigms', 94 Colum L Rev 2432, 2504-2558 (1994); J. H. Reichman, 'Charting the Collapse of the Patent-Copyright Dichotomy: Premises for a Restructured International Intellectual Property System', 13 Cardozo Arts and Ent L J 475-520 (1995).

<sup>25</sup> See above n. 10, at 75-78.

<sup>26</sup> See *id.*, at 78-86 ('strengthening national infrastructures for the acquisition and dissemination of scientific and technical knowledge').

<sup>27</sup> See above n. 22-26.

<sup>28</sup> See generally 'National Systems of Innovation: Towards a Theory of Innovation and Interactive Learning', B.-A. Lundvall (ed., 1992).

<sup>29</sup> See TRIPS Agreement, above n. 1, Article 3 (National Treatment), Article 4 (Most-Favored Nation Treatment). See also G. E. Evans, 'The Principle of National Treatment and the International Protection of Industrial Property', *Eur. Intell. Prop. Rev.* 149, 156-160 (1996).

rubber-stamping the legislative enactments already on the books of the developed countries. Because powerful firms in the developed countries stand to lose some of their comparative advantages if the developing countries follow this strategy, however, spokesmen for these companies or their governments seem increasingly likely to oppose the differentiated, pro-competitive approach I have outlined above, in favor of the wholesale exportation of the developed countries' own intellectual property laws to the rest of the world.

These bullying tactics are visible in the pressures that big firms, certain trade associations, and some governments have already exerted with a view to constraining the advice that international organizations – including the World Intellectual Property Organization (WIPO), the World Health Organization (WHO) and the United Nations Conference on Trade and Development (UNCTAD) – may provide to their constituents in developing countries. Such tactics raise larger questions about the preservation of comity among Member States in the wake of the TRIPS Agreement.

In formulating a proper response to such pressures, governments in developing countries will need to take account of the WTO Dispute Settlement Body's own approach to securing compliance with the TRIPS Agreement, as recently elaborated by its Appellate Body in *US v India*.<sup>30</sup> I intend briefly to explore some of the implications of this important decision in the rest of this article.

## 2. LIMITS OF THE RULE OF LAW

After an initial period of disarray, there is growing evidence that the developing countries have begun to reassess the TRIPS Agreement with a view to identifying the ambiguities it contains and the room to maneuver<sup>31</sup> that is still reserved for domestic policymaking in the field of intellectual property law.<sup>32</sup> Meanwhile, a relentless series of questionnaires emanating from the

<sup>30</sup> *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products*, Appellate Body, WTO doc. WT/D550/AB/R, Dec. 19, 1997 (97-5539) [hereinafter *US v India*].

<sup>31</sup> See, e.g., UNCTAD, *TRIPS and Developing Countries*, above n. 9, at 29–61; World Health Organization (WHO), *Globalization and Access to Drugs: Implications of the WTO/TRIPS Agreement*, DAP Series No. 7, WHO/DAP/98:9 (November 1997) [hereinafter *Globalization and Access to Drugs*].

<sup>32</sup> See WTO Agreement, above n. 1, Annex 1A, The General Agreement on Tariffs and Trade 1994, 33 ILM 81 (1994), Article 1 [hereinafter GATT 1994], incorporating by reference The General Agreement on Tariffs and Trade, 30 October 1947, 33 ILM 81 (1994) [hereinafter GATT 1947], Article XX(d) (reserving to state jurisdiction measures 'necessary to secure compliance with laws or regulations . . . not inconsistent with the provisions of this Agreement, including . . . the protection of patents, trademarks, and copyrights, and the prevention of deceptive practices' provided that 'such measures are not applied in a manner which would constitute . . . unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade'). See also J. H. Reichman, 'Intellectual Property in International Trade: Opportunities and Risks of a GATT Connection', 22 *Vand J Transnat'l L* 747, 828–39 (1989) (discussing the ambiguities of GATT, Article XX(d)).



WTO has sought to focus the attention of the Council for TRIPS<sup>33</sup> on the state of play in the different member countries. The developing countries have also been subjected to overt and covert pressures for early implementation of the TRIPS Agreement, although it seems fair to observe that such pressures are not necessarily inconsistent with the short transitional period this Agreement makes available to developing – as distinct from least-developed – countries.<sup>34</sup>

The WTO's questionnaires fall under the transparency provisions of the TRIPS Agreement itself,<sup>35</sup> and the evaluation process they have generated is both logical and legal. Nevertheless, this process seems to have engendered widespread discontent and a rising tide of defiance in some developing-country circles. Such resentment is further fanned by criticism (and pressures) emanating from both public officials and corporate lawyers in the developed countries who presume to grade the developing countries' responses to these surveys according to their own interpretations of the TRIPS standards.

The developing countries' efforts to limit the impact of the TRIPS Agreement have begun to manifest themselves in a number of different forums. At one extreme, the government of India chose to postpone implementing the 'mailbox' and 'pipeline' rules applicable to patents,<sup>36</sup> despite the contrary advice of its own internal legal advisors.<sup>37</sup> This led the United States to file a lawsuit raising these issues before the WTO's Dispute Settlement Body, and its victory in this case has to some extent weakened the position of the developing countries.<sup>38</sup> At the other extreme, there is a growing recognition that groups of developing countries may benefit from a greater integration of their own markets for non-traditional and high tech products. In this connection, they seem increasingly likely to adopt harmonized, transnational intellectual property laws and policies of their own, with a view to achieving a more favorable balance of public and private interests than currently occurs in the developed world.<sup>39</sup>

<sup>33</sup> See TRIPS Agreement, above n. 1, Article 68.

<sup>34</sup> See TRIPS Agreement, above n. 1, Articles 65–66; above Nos 20–21 and accompanying text.

<sup>35</sup> See TRIPS Agreement, above n. 1, Article 63.

<sup>36</sup> See TRIPS Agreement, above n. 1, Articles 70.8 (a), 70.9.

<sup>37</sup> See below n. 45.

<sup>38</sup> See *US v India*, above n. 30.

<sup>39</sup> See, e.g., WHO, *Globalization and Access to Drugs*, above n. 31, at 34 (noting efforts of Group of Andean Countries to develop Model List of Essential Drugs that are subject to special regulation, including the possibility of compulsory licensing). See also M. de Koning, 'Why the Coercion-Based GATT Approach Is Not the Only Answer to Piracy in the Asia-Pacific Region', 19 *Eur Intell Prop R* 59, 75–76 (1997) (discussing cooperative and consultative approaches of South-east Asian countries to implementing the TRIPS standards); C. A. Primo Braga, 'Trade-Related Intellectual Property Issues: The Uruguay Round Agreement and Its Economic Implications', in W. Martin and L. A. Winters (eds), *The Uruguay Round and the Developing Countries* 341, 356–372 (1996).

Between these two tendencies, there has been a gradual stiffening of resolve and a growing interest in identifying both legal and economic measures with which to resist mounting pressures from government officials in the developed countries and from the multinational corporations that greatly influence the trade policies of these countries. To evaluate the prospects for TRIPS against the background of these rising tensions, however, one must assess the impact of the first decision by the WTO's Dispute Settlement Body under the TRIPS Agreement, known as *US v India*, which was handed down in 1997.<sup>40</sup>

On the merits, the Appellate Body's vindication of the developed countries' interpretation of Articles 70.8 and 70.9 was a triumph for the rule-oriented approach long favored by Professor John Jackson<sup>41</sup> and a setback for the kind of diplomatic shilly-shallying in which the government of India had indulged.<sup>42</sup> The need for India to establish a mailbox for filing foreign patent applications that would preserve the novelty and priority dates of any pharmaceutical and agricultural chemical inventions during the transitional period was thus upheld, along with the further duty to provide legal mechanisms for the granting of exclusive marketing rights in the relevant products.<sup>43</sup> Despite the many ambiguities surrounding the pertinent TRIPS provisions as drafted, which left their precise interpretation open to considerable doubt,<sup>44</sup> it is hard to see how India's own interpretation, which attempted to justify total inaction, could prevail, especially in light of the contrary advice of local counsel.<sup>45</sup> In this respect, a slam-dunk losing case predictably strengthened the hand of the developed countries by underscoring the teeth built into the dispute settlement provisions of the TRIPS Agreement.<sup>46</sup>

In my view, however, that same victory was also a costly one for the developed countries in view of the cautious, strict constructionist approach

<sup>40</sup> See above n. 30.

<sup>41</sup> See, e.g., J. H. Jackson, *The World Trading System*, Ch. 1 (2nd edn, 1998).

<sup>42</sup> The Government of India had initially opted to implement Article 70.8 (a) of TRIPS by means of specific legal mechanisms set out in the Patents (Amendments) Ordinance, a Presidential decree promulgated on 31 December 1994. But Parliament did not ratify the decree in a timely fashion, and because it thus lapsed, India had no effective system in place to implement this article (or Article 70.9) at the time the suit was filed. See *US v India*, above n. 30, at 16–17.

<sup>43</sup> *US v India*, above n. 30, at 16, 19, 23.

<sup>44</sup> See, e.g., J. Straus, 'Implications of the TRIPS Agreement in the Field of Patent Law', in F.-K. Beier and G. Schricker (eds), *From GATT to TRIPS: The Agreement on Trade-Related Aspects of Intellectual Property Rights* 160, 213–14 (1996) (noting ambiguities of marketing rights provision in Article 70.9).

<sup>45</sup> 'We note that an Expert Group advised the Indian Government that a formal legal basis was required to make the mailbox system valid under Indian law.' *US v India*, above n. 30, at 16.

<sup>46</sup> Cf., e.g., J. H. Bello, 'Some Practical Observations About WTO Settlement of Intellectual Property Disputes', 37 *U Va J Int'l L* 357, 367 (1997) (noting that early WTO litigation under TRIPS is likely to avoid complex cases in favor of 'more straightforward legal cases').

<sup>47</sup> Cf. S. P. Croley and J. H. Jackson, 'WTO Dispute Procedures, Standard of Review, and Deference to National Governments', 90 *Am J Int'l L* 193 (1996).

to the TRIPS Agreement that the Appellate Body has chosen to endorse.<sup>47</sup> In so doing, the Appellate Body reversed the Report of the WTO Panel, handed down on 5 September 1997, which had condemned India for undermining the 'legitimate expectations of WTO members concerning the TRIPS Agreement'.<sup>48</sup> According to the Panel, this 'legitimate expectations' test was mandated by prior GATT jurisprudence, including a number of panel reports 'laying down the principle of the protection of the conditions of competition flowing from multilateral trade agreements'.<sup>49</sup> It was also supposedly mandated by Article 31 of the Vienna Convention on the Law of Treaties, which required a 'good faith' standard that indirectly protected 'legitimate expectations'.<sup>50</sup>

The Appellate Body, while finding against India on the merits, rejected the 'legitimate expectations' test as derived from GATT jurisprudence concerning non-violatory acts of nullification or impairment,<sup>51</sup> a type of action that the TRIPS Agreement had expressly suspended for at least a five-year moratorium period.<sup>52</sup> More important, the Appellate Body rejected the Panel's interpretation of Article 31 of the Vienna Convention precisely because, under that Article, the 'legitimate expectations of the parties to a treaty are reflected in the language of the treaty itself'.<sup>53</sup> The Appellate Body also noted that, under Article 19.2 of the Understanding on the Settlement of Disputes, the WTO adjudication process 'cannot add to or diminish the rights and obligations provided in the covered agreements'.<sup>54</sup>

The Appellate Body further refused to endorse the Panel's finding that India must 'eliminate any reasonable doubts regarding whether mailbox applications and eventual patents based on them could be rejected or invalidated because,

<sup>48</sup> Panel Report, *US v India*, WT/DS50/R, 5 September 1997 (WTO 97-3496) [hereinafter Panel Report].

<sup>49</sup> *US v India* (Appellate Body), above n. 30, at 10 (quoting Panel Report, above n. 48).

<sup>50</sup> Panel Report, above n. 47, para. 7.18.

<sup>51</sup> See TRIPS Agreement, above n. 1, Article 64(1), incorporating by reference WTO Agreement, above n. 1, and GATT 1994, above n. 32, Articles XXII and XXIII; DSU, above n. 5, Articles 3(1), 26. See also R. E. Hudec, 'Enforcing International Trade Law' 6-7, 144, 156-161, 269 (1993); F. Roessler, 'The Concept of Nullification and Impairment in the Legal System of the World Trade Organization', in E.-U. Petersmann (ed.), *International Trade Law and the GATT/WTO Dispute Settlement System* 123-142 (1997); E. U. Petersmann, *The GATT/WTO Dispute Settlement System: International Law, International Organizations and Dispute Settlement* 170-176 (1997).

<sup>52</sup> TRIPS Agreement, Article 64(2); *US v India* (Appellate Body), above n. 30, at 12. For criticism of the 'nonviolatory act' concept as potentially applicable to intellectual property rights under TRIPS, see, e.g., above n. 46, at 365-367 (noting risk it could backfire on the US and developed countries); R. C. Dreyfuss and A. F. Lowenfeld, above n. 5, at 283-297 (exploring difficulties of nonviolation complaints in context of TRIPS).

<sup>53</sup> *US v India* (Appellate Body), above n. 30, at 13.

<sup>54</sup> *Id.*; DSU, above n. 5, Article 19.2; see also TRIPS Agreement, above n. 1, Article 1 ('members . . . shall not be obliged to implement in their law more extensive protection than is required by this Agreement').

at the filing or priority date, the matter for which protection was sought was unpatentable in the country in question'.<sup>55</sup> This finding had exceeded the Panel's authority because India was strictly entitled to a transitional period under Article 65<sup>56</sup> and also because Article 1.1 of the TRIPS Agreement states that members 'shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice'.<sup>57</sup> Even under this standard, however, with its built-in deference to local law, the Appellate Body decided that India had failed to evidence adequate compliance with the TRIPS rules concerning both the mailbox provisions of Article 70.8 and the exclusive marketing rights potentially available to foreign patentees of pharmaceutical and agro-chemical products under Article 70.9.<sup>58</sup>

Deference to local law and strict construction of treaties have thus become the pedestal on which the Appellate Body's TRIPS jurisprudence rests. As a result, the seminal decision in *US v India* seems certain to reinforce the residual power of states to forge their own intellectual property laws and policies, within the reserved powers of GATT 1994, Article XX(d),<sup>59</sup> except insofar as the black letter rules of the TRIPS Agreement otherwise clearly overrule or circumscribe such exercise of residual power. By the same token, one can no longer argue that activist panels may fill the gaps in international intellectual property law by reference to the 'legitimate expectations of members and private rights holders concerning conditions of competition',<sup>60</sup> at least as long as the Council for TRIPS continues to suspend application of the GATT rules concerning so-called 'non-violatory' acts of nullification and impairment.<sup>61</sup>

The Appellate Body's decision in *US v India* should logically strengthen the ability of developing countries to resist the bullying tactics of the developed countries that were previously described. The latter have continued to press the developing countries (and their advisors) to adopt versions or interpretations of the international intellectual property standards that conform to the developed countries' own laws and practices or to positions they staked out during the multilateral negotiations. Yet, as the Appellate Body makes clear, position papers deposited in the course of the negotiations do not constitute controlling sources of law because only the black letter rules apply;

<sup>55</sup> Panel Report, above n. 48, para. 7.31.

<sup>56</sup> *US v India* (Appellate Body), above n. 30, at 16; TRIPS Agreement, above n. 1, Article 65(4) (allowing a 10-year transition for new patentable subject matter not previously covered by the domestic law of developing countries).

<sup>57</sup> *US v India* (Appellate Body), above n. 30, at 16; TRIPS Agreement, above n. 1, Article 1.

<sup>58</sup> *US v India* (Appellate Body), above n. 30, at 13; TRIPS Agreement, above n. 1, Articles 70.8, 70.9.

<sup>59</sup> See above n. 32.

<sup>60</sup> *US v India* (Appellate Body), above n. 30, at 13.

<sup>61</sup> See TRIPS Agreement, above n. 1, at Article 64(2) (five-year moratorium on non-violatory complaints), 64(3) (Council for TRIPS to study the issue and consider further extensions of the moratorium, subject to consensus procedures).

and the means of implementing them are expressly reserved to local law in Article 1 of the TRIPS Agreement.

The developing countries remain free, therefore, to adopt a more pro-competitive approach to implementing the TRIPS Agreement, as I have recommended, provided that such implementation remains consistent with a good faith application of the relevant international standards of intellectual property protection. Phrased differently, the decision in *US v India* confirms that the developing countries are free to adopt their own laws and policies with respect to all the intellectual property issues that were *not* expressly harmonized in the TRIPS standards themselves. Because a vast body of unharmonized intellectual property law survived the TRIPS Agreement, the developing countries necessarily retain a high degree of discretion with which to reconcile the burdens that the TRIPS Agreement did impose with the needs of their own national systems of innovation.

### 3. UNCERTAIN FUTURE OF THE TRIPS AGREEMENT: CONFLICT OR COOPERATION?

How the developed countries respond to the Appellate Body's cautious and prudent approach may determine the prospects for the TRIPS Agreement to surmount the tensions of the transitional period without irreparable damage to the progressive development of international intellectual property law in the decades ahead. Clearly, the decision in *US v India* makes it improper for the developed countries to press WTO dispute-settlement panels to find that developing countries, by exploiting the 'grey areas' of international intellectual property law, had *indirectly* nullified or impaired expected competitive benefits of the TRIPS Agreement. In view of the Appellate Body's 'strict constructionist' application of the Vienna Convention on the Law of Treaties to the TRIPS Agreement,<sup>62</sup> moreover, this additional constraint on legal actions to enforce the new intellectual property standards has been decoupled from the express moratorium on 'non-violation' complaints under Article 64.2.<sup>63</sup>

Even if that moratorium should lapse, in other words, despite the growing chorus of views challenging the wisdom of 'nonviolation' complaints in today's volatile international intellectual property arena,<sup>64</sup> the Dispute Settlement Body's Appellate Body has established solid, independent grounds for limiting dispute-settlement actions to clear violations of the

<sup>62</sup> See above n. 50, 53 and accompanying text.

<sup>63</sup> See above n. 52 and accompanying text.

<sup>64</sup> See, e.g., R. C. Dreyfuss and A. F. Lowenfeld, above n. 5, at 283–297, 333 ('where consensus has not emerged . . . minimum standards represent an agreement to disagree on the optimal level of protection'); see also above n. 47; above n. 46, at 366–367; J. H. Reichman above n. 4, at 353. But see above n. 46, at 366 (observing that the possibility of nonviolation complaints 'is alluring to US trade negotiators when they are the parties seeking to employ' this concept of nullification and impairment 'against another member's practices').

TRIPS standards as such. This logically places a high burden of proof on complainant states, and it should justify considerable deference to local law, a result that Professors Dreyfuss and Lowenfeld had advocated well before the decision in *US v India*.<sup>65</sup>

Indeed, these scholars predicted that actions to secure compliance with the TRIPS Agreement might seldom succeed unless the challenged intellectual property law or practice demonstrably affected markets in third countries or impacted on the global market as such.<sup>66</sup> Similarly, I have elsewhere predicted that the developed countries are unlikely to prevail in actions for failure to respect the enforcement procedures of the TRIPS Agreement unless they can show a pattern of flagrant violations. This follows because developing countries need not provide foreign rights holders with a better quality legal product than is available to their own citizens, which is usually poor by our standards.<sup>67</sup>

Incautious litigation and other intimidatory tactics are thus going to be doubly dangerous in the future. First, they may provoke actions by developing countries before WTO dispute-settlement panels to confirm the existence of the 'grey areas' I have previously mentioned. Second, if the developing countries are pushed too hard, too soon, they may invoke a number of *de facto* safeguard clauses buried in Articles 7 and 8 of the TRIPS Agreement, which once called into play, could then produce unexpected results.<sup>68</sup>

Of course, there is the countervailing risk that a developed country, such as the United States, might resort to unilateral pressures under S. 301 of the US Trade Law (or similar measures in other developed countries) if the authorities believed that the 'expectations' of private right holders were unduly thwarted by actions that otherwise conformed to the letter of the TRIPS Agreement. Congress expressly provided for this eventuality in the Uruguay Round Agreements Act, when it approved the WTO Agreement.<sup>69</sup>

<sup>65</sup> See R. C. Dreyfuss and A. F. Lowenfeld, above n. 5, at 291–297, 314–315.

<sup>66</sup> *Id.* at 314–315.

<sup>67</sup> See TRIPS Agreement, above n. 1, Article 41(5); J. H. Reichman above n. 4, at 348–349.

<sup>68</sup> See TRIPS Agreement, above n. 1, Article 7 (Objectives), 8 (Principles); Reichman, *Universal Minimum Standards*, above n. 3, at 387 (noting that, by dint of Article 7, intellectual property rights 'should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users,' while Article 8(1) allows parties to defend 'the public interest in sectors of vital importance to their socio-economic and technological development' by means of 'measures . . . consistent with the provisions of this Agreement').

<sup>69</sup> See Uruguay Round Agreements Act, Pub. L. No. 103–465 [H.R. 5110], 8 December 1994, Section 314(c)(1) (possibly sanctioning unreasonable acts that result in failure to provide adequate and effective protection of intellectual property 'notwithstanding the fact that the foreign country may be in compliance with the specific obligations of the [TRIPS] Agreement'); J. H. Reichman, above n. 3, at 384. See also F. M. Abbott, 'Commentary: The International Intellectual Property Order Enters the 21st Century', 29 *Vand J Transnat'l L* 471, 477 (1996) (criticizing US law in this respect).

However, the WTO's own Framework Agreement casts doubt on the legitimacy of any such unilateral actions that bypass the procedures set out in the Understanding on Rules and Procedures Governing the Settlement of Disputes.<sup>70</sup> Because the TRIPS Agreement now gives the developed countries a battery of remedies against parasitical copying of high-tech goods they did not previously possess, they should not jeopardize these gains by employing unilateral measures of doubtful legality that could prompt the developing countries to suspend their own obligations under TRIPS in retaliation.<sup>71</sup>

For these and other reasons, the developed countries are best served by a less rigid and confrontational approach to the transitional period than they were likely to pursue prior to the Appellate Body's decision in *US v India*.<sup>72</sup> For example, the developed countries can:

- assist the developing countries to make the most of their own opportunities to innovate and to obtain transfers of technology under the TRIPS Agreement, in order to shorten the time needed for these countries to obtain greater social benefits from strengthened intellectual property protection;<sup>73</sup>
- provide technical aid and assistance to this end, and with a view to reducing the transaction costs of building domestic intellectual property systems;<sup>74</sup>
- encourage transnational collaboration and alliances between small and medium-sized companies operating in the same industrial sectors;<sup>75</sup>
- encourage rights holders to devote a share of their expected gains to defraying the costs of enforcing both substantive and procedural rights in the poorer countries;<sup>76</sup>
- encourage rights holders to convert alleged 'pirates' into authorized, licensed users of their intellectual property;<sup>77</sup>

<sup>70</sup> See DSU, above n. 5, Article 23 ('strengthening of the multilateral system'), which obliges member countries seeking actions for violations of the WTO Agreement to obey the rules of the DSU and to forego unilateral determinations of law or fact; WTO Agreement, above n. 1, Article XVI (4) ('each Member shall ensure the conformity of its laws, regulations, and administrative procedures with its obligations as provided in the annexed Agreements').

<sup>71</sup> See Vienna Convention on the Law of Treaties, Article 60(2)(b); I. Brownlie, 'Principles of Public International Law' 618 (4th edn 1979) ('it is widely recognized that material breach by one party entitles the other party or parties to a treaty to invoke the breach as a ground of termination or suspension').

<sup>72</sup> For a clear statement of the hard-nosed approach that does not mince words, see above n. 46; see also E. H. Smith [President, Int'l Intell Prop Alliance (IIPA)], 'Worldwide Copyright Protection Under the TRIPS Agreement', 29 Vand J Transnat'l L 559 (1996); H. C. Hansen, 'International Copyright: An Unorthodox Analysis', 29 Vand J Transnat'l L 579 (1996).

<sup>73</sup> See, e.g., Reichman, Free Riders to Fair Followers, above n. 10, at 78-89.

<sup>74</sup> See, e.g., Ruth L. Gana, Prospects for Developing Countries Under the TRIPS Agreement, 29 Vand. J. Transnat'l. L. 735, 770 (1996).

<sup>75</sup> See, e.g., above n. 10, at 89-91.

<sup>76</sup> See, e.g., J. H. Reichman, above n. 4, at 355.

<sup>77</sup> See R. C. Dreyfuss and A. F. Lowenfeld, above n. 5, at 327.

- encourage use of the WTO's Council for TRIPS as a mediating organ to avoid disputes and to facilitate interim arrangements between developed and developing countries that discourage either side from resorting to litigation.<sup>78</sup>

By the same token, the developing countries can further their own interests by taking a cooperative and consultative approach to common problems, with a view to finding a shared and hopefully pro-competitive middle ground to implementing the different TRIPS standards that will withstand scrutiny by the Council for TRIPS.<sup>79</sup> The developing countries can also help themselves by improving their internal telecommunications capacities;<sup>80</sup> by removing other legal and technical barriers to the flow of information across national boundaries;<sup>81</sup> by rationalizing their competition laws;<sup>82</sup> and by improving the climate for foreign investment and the transfers of up-to-date technology in general.<sup>83</sup>

Professor David Lange of Duke University Law School has further suggested that the developing countries should treat the TRIPS Agreement as a set of default rules that single foreign companies could bargain around if they were willing to make a significant contribution to foreign investment. Along these lines, Professor Lange has established a Foundation to promote case-by-case accommodations of transnational public-private disputes involving intellectual property rights with win-win outcomes for all the protagonists,<sup>84</sup> and this group will hold an important forum on trademark issues next year.

Let us, therefore, hope that the WTO Appellate Body's ground-breaking decision in *US v India* serves to cool passions and to mitigate the clash of interests between developed and developing countries in the short and medium terms. If so, then one should expect the positive economic stimulus of the TRIPS Agreement gradually to influence the business strategies

<sup>78</sup> See, e.g., J. H. Reichman, above n. 4, at 348–351 (envisioning role for Council for TRIPS in limiting recourse to dispute-settlement procedures); but see R. C. Dreyfuss and A. F. Lowenfeld, above n. 5, at 293 (questioning present capacity of Council for TRIPS to enunciate rules or interpret the law as an obstacle to mediatory functions).

<sup>79</sup> Cf. UNCTAD, TRIPS and Developing Countries, above n. 31, at 26; M. de Koning, above n. 39, at 75–76; F. M. Abbott, 'The WTO TRIPS Agreement and Global Economic Development,' in F. M. Abbott and D. J. Gerber (eds), *Public Policy and Global Technological Integration* 39 (1997) (suggesting developing country strategies for the post-TRIPS legal environment).

<sup>80</sup> See, e.g., National Research Council, *Bits of Power: Issues in Global Access to Scientific Data* 4, 13 (1997).

<sup>81</sup> *Id.*

<sup>82</sup> See, e.g., J. H. Reichman, above n. 10, at 52–58; UNCTAD, TRIPS and Developing Countries, above n. 31, at 53–57 ('competition issues within the TRIPS framework').

<sup>83</sup> See, e.g., UNCTAD, TRIPS and Developing Countries, above n. 31, at 16–18.

<sup>84</sup> See D. Lange and J. H. Reichman, 'Bargaining Around the TRIPS Agreement: The Case for Ongoing Public-Private Initiatives to Facilitate Worldwide Intellectual Property Transactions', *Duke J. Int'l Comp. L.* (1998).



of single firms everywhere, whether in a developed or a developing environment. This, in turn, should weaken the North-South divisions that characterized the multilateral negotiations during the Uruguay Round and lead to the formation of healthy transnational alliances and networks between small and medium-sized firms everywhere. In the long run, as the benefits of intellectual property protection manifest themselves in an environment that the developing countries should make ever more competitive, the TRIPS Agreement could help to produce an unprecedented level of investment and technological innovation that may benefit all mankind.

