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Non-Violation Nullification or Impairment Causes of Action under the TRIPS Agreement and the Fifth Ministerial Conference: A Warning and Reminder

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At the Fourth Ministerial Conference in Doha, WTO Ministers directed the TRIPS Council to continue examining the scope and modalities for bringing non-violation nullification or impairment (hereinafter "non-violation") causes of action in dispute settlement under the TRIPS Agreement. The Decision on Implementation-Related Issues and Concerns stated:

> "11. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
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> 11.1 The TRIPS Council is directed to continue its examination of the scope and modalities for complaints of the types provided for under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 and make recommendations to the Fifth Session of the Ministerial Conference. It is agreed that, in the meantime, Members will not initiate such complaints under the TRIPS Agreement."

Article 64.2, TRIPS Agreement,[1] established a five-year moratorium on the initiation of non-violation and situation[2] complaints. During that period, Members were to examine the scope and modalities for such complaints and submit recommendations to the Ministerial Conference. A decision to approve such recommendations or to extend the five-year moratorium was to be made by consensus. The question of whether failure of the TRIPS Council to submit recommendations to the Ministerial Conference acts to continue the moratorium in force is debated. Regardless of one's views on this subject, there is a *substantial risk* that should Ministers *not act* to extend the moratorium at the Fifth Ministerial Conference (or adopt rules on scope and modalities), this will enable the

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[1] "Article 64
2. Subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 shall not apply to the settlement of disputes under this Agreement for a period of five years from the date of entry into force of the WTO Agreement.
3. During the time period referred to in paragraph 2, the Council for TRIPS shall examine the scope and modalities for complaints of the type provided for under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 made pursuant to this Agreement, and submit its recommendations to the Ministerial Conference for approval. Any decision of the Ministerial Conference to approve such recommendations or to extend the period in paragraph 2 shall be made only by consensus, and approved recommendations shall be effective for all Members without further formal acceptance process."

[2] "Situation" complaints may be brought under GATT Article XXIII:1(c), and by cross-reference under TRIPS Agreement Article 64.1, except as limited by the moratorium. Such complaints are addressed by the DSU in a manner that makes their successful pursuit unlikely. Article 26.2, DSU, requires the consensus adoption of panel reports on "situation" grounds. Situation complaints are not considered separately in this memorandum.

initiation of non-violation complaints (as a consequence of the lapse of the period stated in Article 64.2).

From the standpoint of developing countries, the possibility of non-violation causes of action being brought under the TRIPS Agreement would give rise to serious risks. In the *India-Mailbox* decision,[3] in which the Appellate Body (AB) first interpreted the TRIPS Agreement, it stressed reliance on the express text of the agreement and discounted the significance of Member's expectations concerning its effects. Although the AB has given little indication that it would permit Members to significantly expand the agreement to encompass subject matter not expressly contemplated by the text, there remains the possibility of developing Members being forced to defend claims brought on non-violation grounds, even if for the most part such claims are ultimately rejected.

Potential Claims

Intellectual property rights (IPRs) are "negative rights" in that they entitle their holders to prevent third parties from performing acts without their consent. IPRs are not "market access" rights. However, it might be argued that granting IPRs while limiting access to the market deprives the right holder of advantages expected to be gained when the TRIPS Agreement was negotiated. Concems over a market access theory of TRIPS in relation to the audio-visual sector motivated the European Community (EC) to support the non-violation moratorium during the Uruguay Round. The EC was concerned that the United States of America (USA) would claim that granting copyrights to authors and artists, but restricting their capacity to show films, etc., in the EC, would deprive the USA of the benefit of its TRIPS bargain.

It is not difficult to foresee Members acting on behalf of pharmaceutical patent holders claiming that price controls operate to deprive them of the benefits of patent protection. While such a claim would be unlikely to succeed in light of Article 8.1, TRIPS Agreement, and the fact that price controls were present in many countries during the TRIPS negotiations, this may not preclude a Member from threatening such action, or bringing it.

There are many forms of government regulation that could be argued to be consistent with the TRIPS Agreement, yet to nullify or impair the expectations of IPRs holders. For example, tax policies with respect to IPRs may affect the profitability of IPRs-dependent industries and nullify or impair benefits. Regulatory measures such as packaging and labelling requirements, and consumer protection rules, might be applicable to trademark holders and affect their access to the market.

Many Members maintain rules on acceptable expression, that is, they censor certain materials as against public policy. Members on behalf of copyright holders may argue that rules restricting expression are inconsistent with copyright holders' interests.

As noted above, the EC and other Members regulate access to the market for expressive works based on cultural concerns. This inhibits market access by copyright holders and might form the subject of a non-violation complaint.

[3] *India – Patent Protection for Pharmaceutical and Agricultural Chemical Products,* AB-1997-5, WT/DS50/AB/R, 19 Dec. 1997.

Non-violation causes of action could be used to threaten developing Members' use of flexibilities inherent in the TRIPS Agreement and intellectual property law more generally. Thus, for example, Members that adopt relatively generous fair use rules in the fields of copyright or trademark might find that they are claimed against for depriving another Member of the benefit of its bargain. Actions taken by developing Members to implement exceptions to TRIPS patent rules under Articles 30, or to grant compulsory licenses under Article 31, could be alleged to deprive patent holders of their expectations. The application of copyright rules in the area of software protection involves substantial flexibility. The use of discretion to establish permissive uses of code (for example, on hardware or software interface efficiency grounds) might be subject to challenge.

Non-violation causes of action might also be foreseen in the area of enforcement. For example, while the TRIPS Agreement requires that adequate remedial measures be provided, in most cases it leaves to Members substantial discretion to determine the level of appropriate remedies. A Member could be claimed against for nullifying or impairing benefits by imposing insufficiently stringent remedies. Although the TRIPS Agreement does not require Members to provide or enforce forms of IP protection not specified in the agreement, it might be claimed that failure to extend protection to new forms nullified or impaired the TRIPS Agreement bargain.

Non-violation causes of action might be pleaded in addition (in the alternative) to violation causes of action. It might be that in many TRIPS cases developing countries would find themselves forced to defend an additional and ambiguous claim that would raise the level of uncertainty and increase legal costs.

This is not to discount the possibility that developing Members could affirmatively use the non-violation cause of action, for example to claim that threats or penalties imposed by certain Members concerning measures permitted under the TRIPS Agreement are nullifying or impairing the benefits of the bargain. Yet imbalance in the financial capacity of Members to pursue legal claims suggests that the balance of benefits would favour developed Members with strong IPRs holder communities.

To be clear, this brief paper is not intended to suggest that the potential claims outlined above could be successfully pursued. To the contrary, the AB would likely seek to avoid expansion of the TRIPS Agreement text through the uncertain vehicle of non-violation claims. Developing Members might nonetheless face demands and pressures to modify measures or courses of conduct under the threat of such claims.

An issue not to overlook

The foregoing summary of non-violation actions that might arise suggests that the subject matter of non-violation nullification or impairment and Article 64.3, TRIPS Agreement, should not be overlooked among the myriad of issues that developing Members should address in the run-up to and at the Fifth Ministerial Conference. It is in the nature of a warning and reminder.