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## **PART 4: ENFORCEMENT, ACQUISITION AND MAINTENANCE OF RIGHTS**

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### **30: Enforcement**

#### **1. Introduction, terminology, definition and scope**

Part III of TRIPS (Articles 41–61) lays down minimum standards for the enforcement of intellectual property rights. Part IV (Article 62) does the same with respect to the acquisition and maintenance of such rights.

Both Parts thus complement the substantive minimum standards of the Agreement. From a right holder's perspective, substantive minimum rights are of little value if there are no effective procedures for the enforcement of such rights, or if a given WTO Member may render impossible the enjoyment of IPRs through certain acquisition and maintenance requirements. On the other hand, from a national government's perspective, it is important to retain its sovereignty to subject the acquisition and maintenance of IPRs to certain formalities and conditions, such as payment of registration and maintenance fees. Part IV of TRIPS addresses this kind of issue.

Due to the wide differences that existed in national laws with regard to enforcement rules, Part III of TRIPS does not attempt to harmonize such rules but to establish general standards to be implemented according to the method determined by each Member, in line with the general principle set forth in Article 1.1. Thus, the Preamble notes that the negotiating parties recognized "the need for new rules and disciplines concerning ... (c) the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems". The Preamble also stresses "the need for a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods", an objective that had not been achieved during the Tokyo Round despite the attempts of the USA to establish rules on the matter.<sup>1</sup>

To "enforce" means, in this context, to execute a particular law, writ, judgment, or the collection of a debt or fine.<sup>2</sup> In the context of IPRs, in particular, it means to prevent or obtain remedies for infringement of conferred rights. An "infringement" occurs when acts under the exclusive control of the title holder (such as those defined in Articles 11, 14, 16, 26 and 28) and not subject to admissible exceptions (like those permitted by Articles 13 and 30), are performed by third parties without

<sup>1</sup> See, e.g., Bernard Hoekman, Michel Kosteci, *The Political Economy of the World Trading System, From GATT to WTO*, Oxford University Press, Oxford 1997, p. 151 See also Chapter 1 of this book.

<sup>2</sup> See *Black's Law Dictionary*, sixth edition, 1990, p. 528.

the authorization of the title holder or a competent authority (e.g., in the case of compulsory licenses).

The scope of the enforcement rules contained in Part III is broad: they include measures for the control of infringement domestically and at the border, and apply to *all* rights covered under the Agreement, without exception. However, some measures are only compulsory with regard to certain types of IPRs, such as border measures and criminal sanctions that are binding in relation to trademarks and copyright only.

Part III consists of five Sections: Section 1 (Article 41) deals with general obligations applying to all provisions of Part III. Section 2 (Articles 42–49) provides rules on civil and administrative procedures and remedies, while Section 3 (Article 50) covers provisional measures. Section 4 (Articles 51–60) contains rules on special requirements related to border measures, and Section 5 (Article 61) deals with criminal procedures.

More generally, Part III deals with remedies<sup>3</sup> and procedures).<sup>4</sup> (judicial and administrative).<sup>5</sup> These norms fall into three general categories: general procedures, right of appeal, and transparency.<sup>6</sup> The established obligations are not set out in detail, but they are rather result-oriented. This approach explains why this Part contains such vague phrases as “effective”, “reasonable”, “undue”, “unwarranted” “fair and equitable” and “not...unnecessarily complicated or costly”.<sup>7</sup>

Part III contains mandatory provisions of different nature. While some establish outright obligations (e.g., Article 48.2), many provisions require Members to give judicial authorities (Articles 43.1, 44.1, 45.1 and 2, 46, 47, 48.1, 50.1, 2, 3 and 7) or other “competent” or “relevant” authorities (Articles 53, 56 and 59) the authority to take certain actions. While Members must *empower* their judicial authorities to order certain acts, such authorities are *not obliged* to do so, and can exercise discretion in applying the mandated rules. Even if a systematic refusal to use the authority conferred were proven, which may be difficult to demonstrate, the Member in question would have complied with the Agreement’s obligations by empowering such authorities to take the prescribed action in a particular case,<sup>8</sup> where the courts have acted in accordance with the dominant practice in the Member in question. In addition, in order to assert violation it

<sup>3</sup> “Remedy” is “the means by which a right is enforced or the violation of a right is prevented, redressed, or compensated” (*Black’s Law Dictionary*, sixth edition, 1990, p. 1294).

<sup>4</sup> “Procedure” is “the mode of proceeding by which a legal right is enforced, as distinguished from the substantive law which gives or defines the right” (*Black’s Law Dictionary*, sixth edition, 1990, p. 1203).

<sup>5</sup> See Articles 50.8 and 49 as well as Article 61.

<sup>6</sup> See, e.g., Jay Dratler, *Intellectual property law, commercial, creative, and industrial property*, Law Journal Press, New York 1999, pp. 1A-115 [hereinafter Dratler].

<sup>7</sup> Dreier, *TRIPs and the enforcement of intellectual property rights* in F. Beier and G. Schriker, *From GATT to TRIPs*, Max Planck Institute/VCH, Weinheim 1996, p. 255 [hereinafter Dreier].

<sup>8</sup> Gervais, p. 202, argues that systematic refusal to apply their powers by the relevant authorities may constitute “non-violation”. However, the applicability of Article 64.3 of TRIPS is still under discussion (the scope and modalities for complaints of that type have not been examined yet by the Council for TRIPS).

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would be necessary to prove that the substantive standard of protection in relation to which an enforcement issue arises is sufficiently unambiguous to trigger the granting of certain enforcement measures.<sup>9</sup>

Part III also includes a number of optional provisions (e.g., application of border measures to rights other than copyright and trademarks) that Members may but are not obliged to adopt.

As a result, there are both mandatory and optional enforcement measures. Preliminary relief, injunctions, declaratory relief, damages, disposition or destruction of contraband, and criminal sanctions for wilful trademark counterfeiting and commercial copyright piracy, are mandatory in certain circumstances, while other remedies, including recovery of the infringer's profit, attorneys' fees and costs, statutory damages, and automatic (*"ex officio"*) border enforcement measures, are optional.<sup>10</sup>

The enforcement rules are subject to the general principle of fairness and equity.<sup>11</sup> There are also other standards to be applied, such as protection against abuses by right holders (Articles 41.1, 48.1, 50.3 and 53.1), the proportionality of the measure *vis-à-vis* the seriousness of the infringement (Articles 46 and 47), and the protection of confidential information (Articles 42, 43.1 and 57; see also Article 40.3 in Part II, Section 8).

While the objective of Part III is to ensure effective enforcement of IPRs in all Members, the Agreement allows for a broad exception for cases in which the remedies under this Part "are inconsistent with a Member's law", provided that declaratory judgments<sup>12</sup> and adequate compensation are available (see Article 44.2, second sentence).

Part IV (Article 62) concerns another important procedural aspect of IPRs, i.e., their acquisition and maintenance. The sole Article governing this issue is held in very general terms, leaving considerable discretion to Members as to its implementation. In essence, it authorizes Members to subject the acquisition and maintenance of IPRs to the compliance by the applicant or right holder with "reasonable" procedures and formalities (paragraph 1). As far as the granting or registration of IPRs is concerned, Members are obligated to make sure that such procedures are terminated within a "reasonable" time to allow the effective enjoyment by the right holder of the period of protection (paragraph 2). The general principles of fair and equitable procedures and reasoned decisions as applicable to the enforcement provisions in Part III shall also govern acquisition and maintenance rules in Part IV (Article 62.4). Finally, administrative decisions concerning procedures under Part IV are subject, on certain conditions, to judicial or quasi-judicial review (Article 62.5).

<sup>9</sup> See, e.g., Jerome Reichman, *Enforcing the enforcement procedures of the TRIPS Agreement*, Virginia Journal of International Law 1997, vol. 37, No. 2, p. 350 [hereinafter Reichman].

<sup>10</sup> See Dratler, p. 1A-100.

<sup>11</sup> See Articles 41.2 and 42.

<sup>12</sup> A "declaratory judgment" is a "binding adjudication of the rights and status of litigants even though no consequential relief is awarded" (*Black's Law Dictionary*, sixth edition, 1990, p. 409).

## 2. History of the provisions

### 2.1 Situation pre-TRIPS

One of the major innovations of TRIPS in relation to pre-existing IP treaties has been that it deals not only with the availability of rights, but also with their enforcement. This broad coverage was a specific objective of the proponents of an agreement on intellectual property rights in GATT, who complained about the lack of effective enforcement of the obligations under the Paris and the Berne conventions, particularly in developing countries. Adequate standards of IPR protection, they argued, were of little value if the conferred rights could not be effectively enforced.<sup>13</sup>

### 2.2 Negotiating history

The establishment of detailed rules on enforcement of IPRs was advocated in GATT negotiations by the USA<sup>14</sup> and the EC.<sup>15</sup> In independent submissions, the USA and the EC proposed texts that were in some cases very close or identical. In doing so, the United States and the EC reflected the views of the business community, as expressed in the joint position paper by the U.S. Japanese and European business associations (IPC, Keidanren and UNICE)<sup>16</sup> calling for the establishment of a set of “essential elements of enforcement procedures”.<sup>17</sup>

Unlike other sections of TRIPS, and notwithstanding their importance and far reaching implications, the enforcement and maintenance provisions were subject to much less discussion and controversy than the substantive rules contained in the Agreement.<sup>18</sup> This was reflected in the fact that most provisions on the enforcement, acquisition and maintenance of IPRs in the final version of TRIPS are essentially identical to those in the Brussels Draft.<sup>19,20</sup>

<sup>13</sup> See, e.g., Trebilcock and Howse, p. 320–321.

<sup>14</sup> See, e.g., MTN.GNG/NG11/W/70 of May 11, 1990, Part 3.

<sup>15</sup> See, e.g., MTN.GNG/NG11/W/16 of November 20, 1987; MTN.GNG/NG11/W/31 of May 30, 1989.

<sup>16</sup> IPC is the (US) “Intellectual Property Committee”; Keidanren is the Japan Business Federation; and UNICE stands for the “Union of Industrial and Employers’ Confederations of Europe”.

<sup>17</sup> See IPC, Keidanren & UNICE (Eds.), *Basic Framework of GATT Provisions on Intellectual Property – Statement of Views of the European, Japanese and United States Business Communities*, June 1998.

<sup>18</sup> See, e.g., the submissions presented by India (MTN.GNG/NG11/W/40), Canada (MTN.GNG/NG11/W/42), (MTN.GNG/NG11/W/43), Switzerland (MTN.GNG/NG11/W/44), Korea (MTN.GNG/NG11/W/48), Australia (MTN.GNG/NG11/W/53), Hong Kong China (MTN.GNG/NG11/W/54), the Scandinavian Countries (MTN.GNG/NG11/W/58), and Austria (MTN.GNG/NG11/W/62); and the GATT Secretariat document MTN.GNG/NG11/W/33 Rev. 2 of February 1, 1990. See also Dreier, p. 257.

<sup>19</sup> Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Revision, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 Dec. 1990.

<sup>20</sup> For the same reason, the differences between the current text of the TRIPS Agreement, on the one side, and the EC and U.S. proposals as well as the Anell Draft (document MTN.GNG/NG11/W/76, of 23 July 1990), on the other side, do not seem to be substantial. Due to these circumstances, the treatment of the negotiating history in this part of the book deviates from that in other chapters. The differences in the various proposals that are relevant for the purposes of this book are highlighted throughout the discussion of the respective TRIPS provisions (see Section 3, below).

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The comparatively uncontroversial nature of the negotiations stood in contrast to the fact that significant differences in enforcement rules existed amongst legal systems and national laws, and that many developing countries participating in the negotiations actually lacked the infrastructure and resources to apply higher standards for the enforcement of IPRs.

Since, in the light of such differences, the harmonization of enforcement rules seemed most unlikely, even among developed countries, the USA and the EC suggested a set of result-oriented rules, that is, rules that essentially define the objective to be attained (e.g., preventing infringement) rather than the specific details of the obligations to be assumed.

An analysis of the drafts and of the final adopted text<sup>21</sup> indicates that while many provisions were weakened and some measures were left at the discretion of the Members, the USA and the EC largely imposed their own conception of the subject. The extent to which the legitimate interests of developing countries received due attention in the course of the negotiations is still an open question.<sup>22</sup> Developing countries were able, based on an Indian proposal, to avoid any obligation to establish a special judicial system to enforce IPRs or to assign specific resources,<sup>23</sup> but did not influence otherwise very much the outcome of the negotiations.

### 3. Possible interpretations

#### 3.1 Article 41

##### 3.1.1 Article 41.1

#### SECTION 1: GENERAL OBLIGATIONS

##### Article 41

1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

Section 1 of Part III lays down the general obligations relating to enforcement. It includes provisions on the availability of procedures to prevent and remedy infringement, on the basic conditions that such procedures should meet, on decisions and their review, and on the forum for infringement procedures. The obligations laid down in this Section apply to all types of IPRs covered by the Agreement.

<sup>21</sup> See generally, Reichman, pp. 335–356.

<sup>22</sup> See, e.g., Dreier, p. 257.

<sup>23</sup> See below Article 41.5.

Article 41 applies to judicial as well as to administrative procedures<sup>24</sup> relating to the enforcement of IPRs. Administrative enforcement procedures must be distinguished from those relating to the acquisition and maintenance of rights, which are dealt with in Part IV of TRIPS,<sup>25</sup> though, as mentioned below, in some cases the same procedural rules apply.

Article 41.1 states the basic obligation with regard to enforcement procedures: Members are bound to establish procedures that permit “effective” action against infringement. While the term “effective” is used in other provisions of the Agreement,<sup>26</sup> there is considerable room for interpretation in the particular context of this section.<sup>27</sup> The wording of Article 41.1 (which closely follows the original U.S. and EC proposals<sup>28</sup>), suggests that Members would comply with the Agreement’s obligations if they make available the appropriate procedures as required in Part III, that is, the obligation to provide effective measures against infringement does not oblige them to introduce measures other than those stipulated in Part III.<sup>29</sup> Hence, any judgment about compliance should be objectively based on whether Members have made or not the required procedures available. In assessing whether a Member’s enforcement procedures actually permit “effective action”, a WTO panel or the Appellate Body would have to take into account that the effectiveness of measures may be differently assessed in different legal systems. There cannot be one single standard of what constitutes “effectiveness”. This is confirmed by the TRIPS Preamble, which makes clear that the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights needs to take into account “differences in national legal systems”.

The requirement that Members provide effective enforcement procedures raises a question regarding the nature of the inconsistency that the DSB should examine. On the one hand, it could be argued that failure of a Member to provide an adequate remedy in an individual case is evidence of failure to provide effective enforcement procedures. On the other hand, the DSU is intended to provide a mechanism for addressing matters affecting the rights of Members, and not as a court of appeal for private litigants. It would appear more appropriate in evaluating the effectiveness of a Member’s enforcement procedures that an inconsistency

<sup>24</sup> In some jurisdictions (e.g., Mexico, Peru) administrative bodies have been conferred powers to order injunctive relief, while in others this is an exclusive competence of judicial authorities.

<sup>25</sup> See below, Section 3.22.

<sup>26</sup> See Article 27.3 (b), Chapter 21 of this book.

<sup>27</sup> Under WTO jurisprudence the same word may be given different meanings when used in different provisions. See, for instance, the Appellate Body’s analysis of the meaning of “like” in paragraphs 2 and 4 of Article III of GATT, in *European Union-Measures affecting Asbestos and Products Containing Asbestos*, WT/DS135. The Appellate Body held that “[i]n each of the provisions where the term “like products” is used, the term must be interpreted in light of the context, and of the object and purpose, of the provision at issue, and of the object and purpose of the covered agreement in which the provision appears” (para. 88).

<sup>28</sup> The original proposals submitted by the USA and the EC, however, referred to the obligation to “provide effective *procedures*” (emphasis added) (as opposed to “effective action” in the current text).

<sup>29</sup> See, e.g., Dreier, p. 260.

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would be found when there is evidence of a *systemic* problem in the complaint against Member; that is, a problem that is likely to recur. A law or other measure that is intended to be applied as a matter of course might constitute the basis of a systemic problem. In respect to the operation of the courts or administrative authorities, a systemic problem could be evidenced by a series of decisions that are manifestly contrary to the effective enforcement of TRIPS obligations. Isolated “questionable decisions” should probably not constitute adequate evidence of failure to provide effective enforcement procedures.

Article 41.1 requires the establishment of two types of remedies: “expeditious remedies to prevent infringements”, and “remedies which constitute a deterrent to further infringements”. A Member should be deemed to provide “expeditious” preventive remedies if it complies with the obligations set forth in Article 50 (provisional measures) and Article 51 (border measures), and to comply with the obligation relating to remedies which constitute a deterrent to further infringements, if it provides for injunctions, damages and seizure to the extent mandated by the Agreement.<sup>30</sup>

Article 41.1 introduces the need for balancing the interest of title-holders, alleged infringers and the public interest. While the first sentence of the provision (as analysed above) mirrors the interests of rights holders, the second sentence takes account of the public interest in the availability of IPR-protected products: “procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse”. This provision indicates, in line with the Preamble<sup>31</sup> and Article 8.1<sup>32</sup> that in adopting and applying enforcement procedures Members *must* ensure that legitimate trade is not jeopardized, for instance, by injunctive measures adopted without sufficient justification. According to the panel report in *Canada-Pharmaceutical Products*,<sup>33</sup> “‘legitimate’ must be defined in the way that it is often used in legal discourse – as a normative claim calling for protection of interests that are ‘justifiable’ in the sense that they are supported by relevant public policies or other social norms” (para. 7.69).

The second sentence of Article 41.1 also requires<sup>34</sup> Members to take action to avoid abuses of enforcement procedures. Such abuses may equally create barriers to legitimate trade or impose other burdens on the public or competitors. For instance, there is evidence of “strategic litigation” by large companies (often based on weak or invalid titles) targeted at small and medium companies which cannot bear the high costs and lengthy procedures involved in IPR litigation.<sup>35</sup>

<sup>30</sup> See below Articles 44, 45 and 46.

<sup>31</sup> “Desiring . . . to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade; . . .”

<sup>32</sup> “Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology”.

<sup>33</sup> WT/DS114/R, 17 March 2000.

<sup>34</sup> The language used is mandatory (“shall be applied . . .”).

<sup>35</sup> See, e.g., Carlos Correa, *Internationalization of the patent system and new technologies*, Wisconsin International Law Journal 2002, vol. 20, No. 3, p. 543.

### 3.1.2 Article 41.2

2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

Article 41.2 introduces a general clause relating to procedures concerning enforcement. It prescribes a rather general but important obligation: procedures concerning the enforcement of IPRs must be “fair and equitable”. It then vaguely indicates undesirable elements that could presumably make a procedure unfair or inequitable, based on complexity, costs, time-limits and duration.<sup>36</sup> However, other elements may be taken into account to judge fairness and equity, such as the opportunity to be heard and to present evidence before a decision on the merits is adopted.<sup>37</sup>

The principle of fairness and equity applies to all the parties concerned in enforcement procedures, and not only to right holders. As mentioned below, there are several provisions in Part III specifically aimed at protecting the alleged infringer from false or abusive right holders’ actions.

A violation of Article 41.2 might be claimed if “unnecessarily complicated or costly”, or “unreasonable time-limits or unwarranted delays” were in-built features of such procedures, and not in relation to particular, isolated cases. If a dispute were to arise under the DSU, the complaining party would have the difficult burden of proving that a violation existed. In fact, cost and delays would be highly dependent on the way different national courts apply existing procedures. Moreover, it would be extremely difficult to set an objective international standard on these matters. For instance, in the USA, the costs of a typical infringement suit are estimated to run to \$1–3 million; moreover, litigation is a lengthy process (one estimate suggests that the duration of the “average” patent suit in a District Court is 31 months), meaning that potential infringers are either paying royalties or risking costly infringement penalties for long periods until a final decision on the patent is reached.<sup>38</sup> High litigation costs are also common in other jurisdictions.<sup>39</sup> Given the broad room left to Members to determine the method to comply with the TRIPS obligations, it would be extremely difficult for a panel to determine when certain procedures may be deemed “unnecessarily” complicated or costly, or entail “unreasonable” time-limits or “unwarranted” delays.

<sup>36</sup> The adopted text does not include the condition “unnecessarily time-consuming” contained in the original proposals of the EC and the USA.

<sup>37</sup> See Article 42 on “Fair and Equitable Procedures”.

<sup>38</sup> See, e.g., Stuart Graham and David Mowery, *Intellectual property in the U.S. software industry*, prepared for presentation at the NRC Board of Science, Technology and Economic Policy Conference “The Operation of the Patent System”, Washington, D.C., October 22, 2001, available at <<http://www4.nationalacademies.org/pd/step.nsf>>.

<sup>39</sup> Litigation costs, according to some estimates, would amount to \$1 million in the United Kingdom and \$ 200,000 in Germany. See, e.g., John Orange, *Costs – an Issue for Whom?*, Paper submitted to the Conference on the International Patent System, World Intellectual Property Organization, Geneva, March 25–27, 2002.



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Article 41.2 (as well as Article 41.3) also applies<sup>40</sup> to procedures concerning the acquisition or maintenance of IPRs and, where a Member's law provides for such procedures, administrative revocation and *inter partes* procedures such as opposition, revocation and cancellation.<sup>41</sup>

#### 3.1.3 Article 41.3

3. Decisions on the merits of a case shall preferably be in writing and reasoned. They shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard.

Article 41.3 requires that “decisions on the merits of a case shall *preferably* be in writing and reasoned”. The original U.S. and EC proposals included the adverb “regularly”. The change probably reflected the fact that even developed countries would have had to amend their legislation if the latter higher standard had been adopted.<sup>42</sup>

This Article also establishes a transparency obligation<sup>43</sup> with regard to the parties to a proceeding: decisions on the merits of a case shall be made available at least to them “without undue delay”. Members have considerable leeway to establish how “undue” can be interpreted in this context.<sup>44</sup> Article 41.3 does not prevent decisions from being made known to third parties or, more generally, to the public.<sup>45</sup>

Finally, Article 41.3 prescribes that decisions on the merits of a case be based only on evidence in respect of which parties were offered the opportunity to be heard. This requires the establishment of a proper adversarial procedure for all evidence submitted by the parties or from any other source.<sup>46</sup>

The obligations established by Article 41.3 only apply to “decisions on the merits” and not to provisional measures, which are governed by other rules in the Agreement.<sup>47</sup> However, this Article is not necessarily limited to *final* decisions on the merits.

<sup>40</sup> See Article 62.4 of TRIPS.

<sup>41</sup> These types of procedure are undertaken by the Patent and Trademark Offices in many jurisdictions, such as the by the European Patent Office and the U.S. Patent and Trademark Office.

<sup>42</sup> See, e.g., Dreier, p. 260.

<sup>43</sup> See also Article 63 of the TRIPS Agreement, Chapter 31.

<sup>44</sup> The terminology of the Agreement relating to procedural delays is not uniform. Article 41.2 refers to “unwarranted delays” and Article 50.4 to “without delay”. It is unclear whether the use of “undue” and “unwarranted” may lead to different solutions (“undue” is “excessive, disproportionate”; “unwarranted” means “unauthorized; unjustified”, *The Concise Oxford Dictionary*, 8<sup>th</sup> edition, Oxford, 1990, pp. 1334 and 1348). The expression “without delay” in Article 50.4 seems to establish a higher standard, requiring authorities to take prompt action. Note also that Articles 44.1 and 50.1(a) require that action be taken “immediately”.

<sup>45</sup> In general, judicial decisions, whether officially published or not, are available to any interested party.

<sup>46</sup> See, e.g., Gervais, p. 198.

<sup>47</sup> As examined below (see analysis of Article 50.4) in the case of provisional measures adopted *inaudita altera parte*, the parties affected shall be given notice, “without delay after the execution of the measures at the latest”.

### 3.1.4 Article 41.4

4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in a Member's law concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the merits of a case. However, there shall be no obligation to provide an opportunity for review of acquittals in criminal cases.

Article 41.4 requires that the proceedings be made available for review of final administrative decisions relating to enforcement of IPRs, and that such a review be specifically made by “a judicial authority”.<sup>48</sup> However, Article 62.5 of the Agreement provides that in case of procedures relating to the acquisition and maintenance of rights rather than to their enforcement, final administrative decisions shall be subject to review “by a judicial or quasi-judicial authority”.<sup>49</sup> On the other hand, there shall be no obligation to provide an opportunity for such review of decisions in cases of unsuccessful opposition or administrative revocation, provided that the grounds for such procedures can be subject to invalidation procedures.<sup>50</sup>

Article 41.4 also mandates the judicial review of “initial judicial decisions”. There are three important possible limitations to the right of appeal enshrined in this Article. First, it must be conferred at least in relation to “the legal aspects” of such decisions, thereby reflecting the fact that in many jurisdictions appeals do not address findings of fact. Second, the right to appeal may be excluded in cases of minor economic importance, as also provided for in many national laws, according to “jurisdictional provisions in a Member's law”.<sup>51</sup> Finally, there shall be no obligation to provide an opportunity for review of an acquittal (that is, the legal and formal certification of the innocence of a person) in criminal cases.

### 3.1.5 Article 41.5

5. It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of

<sup>48</sup> In contrast, Article 31(j) of the Agreement (on “Other Use Without Authorization of the Right Holder”) only requires that “any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a *distinct higher authority* in that Member” (emphasis added).

<sup>49</sup> The Agreement leaves Members the opportunity to define what “quasi-judicial authority” means. This concept may include, for instance, the board of appeals established in many countries to review decisions by patent and trademark offices, such as the Board of Patent Appeal and Interferences and the Trademark Trial and Appeal Board of the USA. See, e.g., Dratler, pp. 1A-118.

<sup>50</sup> For more details on Article 62.5, see below.

<sup>51</sup> Such provisions may be, in the case of federal states, of federal or state (provincial) nature.

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Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general.

The last paragraph of Article 41 was not suggested in the original U.S. and EC proposals. It was included in order to address the concerns of developing countries, based on a proposal by the Indian delegation.<sup>52</sup> This was in fact one of the few provisions in Part III where developing countries' views made a difference. Article 41.5 makes it clear that Members are not obliged to establish a special court to deal with intellectual property issues, nor to allocate special funds to this area. Such a special jurisdiction has been established, for instance, in the USA, and its creation is often regarded as one of the key factors that contributed to the strengthening of IPR protection in that country since the 1980's.<sup>53</sup> Many developing countries (e.g., China) have also established special courts in the area of IPRs, even though they are not obliged to do so.

#### 3.2 Article 42

##### SECTION 2: CIVIL AND ADMINISTRATIVE PROCEDURES AND REMEDIES

##### Article 42 Fair and Equitable Procedures

Members shall make available to right holders\* civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement. Defendants shall have the right to written notice which is timely and contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearances. All parties to such procedures shall be duly entitled to substantiate their claims and to present all relevant evidence. The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements.

[Footnote]\* For the purpose of this Part, the term "right holder" includes federations and associations having legal standing to assert such rights.

Article 42 applies directly only to *civil judicial* procedures.<sup>54</sup> As suggested by its title, this Article develops the general obligations spelled out in Article 41.2 examined above. The wording used to describe some of these obligations ("timely", "sufficient detail", "overly burdensome") leaves considerable leeway to Members for their implementation.

<sup>52</sup> See MTN.GNG/NG11/W/40, at 3, No. 4(e).

<sup>53</sup> See, e.g., John Barton, *Adapting the intellectual property system to new technologies*, International Journal of Technology Management 1995, vol. 10. No. 2/3, p. 163 [hereinafter Barton, 1995].

<sup>54</sup> By way of reference in Article 49, Article 42 also applies to administrative procedures. See below, Section 3.9.

The footnote clarifies the concept of “right-holder” for the purposes of this Article and the whole Part III, by specifying that it includes federations and associations. The purpose of this footnote is to enable copyright collecting societies and other entities that have recognized legal standing, according to national law, to file joint actions. This footnote, however, does not clarify whether the concept of “right holder” may include not only the “owner”<sup>55</sup> of IPRs, but also other parties legally authorized to exercise such rights. Since TRIPS is not intended to harmonize IPRs and related procedures (see Article 1.1), it is up to each Member to determine its own concept of “right holder”.<sup>56</sup> Voluntary licensees,<sup>57</sup> for instance, may under certain circumstances initiate enforcement procedures under some national laws.<sup>58</sup> This broad understanding of “right holders” under Article 42 has even been widened in a recent report by the WTO Appellate Body: according to the AB, the procedural rights under Article 42 are not limited to the established owner of an IPR, but extend as well to all other persons “who claim to have the legal standing to assert rights”.<sup>59</sup> In other terms, a presumptive owner equally benefits from the rights under Article 42, as long as a court has not made a determination that the claimant is in fact not the owner of the respective right.

The basic obligation under Article 42 is to make available civil procedures. This should not pose any problem to Members. It also indicates several elements that such procedures must provide for:

- (a) Defendants shall have the right to written notice which is timely and contains sufficient detail, including the basis of the claims. This obligation is intended to give the defendant an effective opportunity to argue his case.
- (b) Parties shall be allowed to be represented by independent legal counsel. No exception is provided for this obligation, thereby indicating that parties may be represented in all acts in judicial proceedings by the legal counsel of their choice.
- (c) Procedures shall not impose “overly burdensome” requirements concerning mandatory personal appearances. The wording used in this provision indicates that there is nothing wrong with mandatory personal appearances, even if they are cumbersome. Only excessively cumbersome requirements are banned.

<sup>55</sup> The concept of “right-holder” is also used in the Agreement in relation to integrated circuits. Footnote 9 to Article 36 clarifies that “the term ‘right holder’ in this Section shall be understood as having the same meaning as the term ‘holder of the right’ in the IPIC Treaty”. However, the concept of “owner” is used in relation to copyrights (Article 14.3), trademarks (e.g., Article 16.1), industrial designs (Article 26.1) and patents (e.g., Article 28.1).

<sup>56</sup> See, for example, the British unregistered design right, under which a person can qualify for protection either as the author, employer, commissioner or the first marketer of the design work (Ss. 215, 217 *et seq.*, Copyright, Designs and Patents Act 1988, U.K.). On this issue, see Chapter 16 (Industrial Designs).

<sup>57</sup> Despite some submissions during the negotiation of this Article, a reference to exclusive licensees was not incorporated.

<sup>58</sup> See, e.g., Article 38 (2) of the WIPO Secretariat “Draft Industrial Property Act”.

<sup>59</sup> See *United States – Section 211 Omnibus Appropriations Act of 1998* (hereinafter *Havana Club*); WTO document WT/DS176/AB/R of 2 January 2002, p. 63, paragraphs 217, 218, partly referring to the panel that had decided the case in the first place (WT/DS176/R of 6 August 2001). In the report, the Appellate Body limited its interpretation to the case of trademarks. But there is no reason why this interpretation of Article 42 should not equally apply to other intellectual property rights covered by the TRIPS Agreement. For a more detailed analysis of the Appellate Body report, see Section 4, below.

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(d) All parties shall be duly entitled to substantiate their claims and to present all relevant evidence. This provision applies to all types of civil and administrative procedures, including for the adoption of provisional measures.

(e) Finally, Article 42 establishes that the procedure shall provide a means “to identify and protect confidential information”, unless this would be contrary to existing constitutional requirements. This protection may apply, for instance, when an expert is appointed by the court to determine the damages arising from infringement.<sup>60</sup> It is interesting to note that, while Article 39.3 refers to “undisclosed information”, Articles 40.3, 42, 43.1, 57 and 63.4 allude instead to “confidential” information. The latter term is much wider than the notion of “undisclosed information”: Article 39.3 refers to a narrowly defined subset of commercial data (regarding certain new chemical entities). There is a great deal more involved in “confidential information” of a business, for example, the elements of a trade secret that parties might be required to submit to a judge or expert but not disclose to the other party in the course of litigation.<sup>61</sup> Thus, there is clearly a distinction between what is referred to in Article 39.3 and other confidential information as to which more general rules are applied.

The obligation to identify and protect confidential information does not apply if it is “contrary to existing constitutional requirements”. The exception reflects the fact that in some countries types of secrecy in civil judicial procedures may be prohibited as a matter of constitutional law. In these cases, a contradiction with a national law not having the status of a constitutional provision or principle may not be sufficient to justify non-compliance. Questions may arise as to whether constitutional rules introduced after the entry into force of the Agreement would fall within the category of “existing” requirements. Since the Agreement does not include a temporal reference (especially with regard to its entry into force in a particular Member), it should be interpreted in the sense that “existing” simply means applicable at the time where a particular enforcement measure is requested or applied.

### 3.3 Article 43

#### 3.3.1 Article 43.1

#### Article 43 Evidence

1. The judicial authorities shall have the authority, where a party has presented reasonably available evidence sufficient to support its claims and has specified evidence relevant to substantiation of its claims which lies in the control of the

<sup>60</sup> See, e.g., Mireille Buydens, *L'Accord ADPIC (TRIPS) et les dispositions destinées à assurer la mise en oeuvre effective des droits de propriété intellectuelle*, IR DI, Mys & Breess Ed., 1997, p. 9 [hereinafter Buydens].

<sup>61</sup> Note that in the absence of a specific definition in the Agreement, the scope of “confidential information” under Articles 42, 43.1 and 57 may be determined by national laws, and it may encompass information that does not strictly comply with the standards under Article 39.3, such as information of potential commercial value, or which is not “secret” as defined in Article 39.2(a). For a detailed analysis of Article 39, see Chapter 28.

opposing party, to order that this evidence be produced by the opposing party, subject in appropriate cases to conditions which ensure the protection of confidential information.

The purpose of this obligation is to secure, under certain conditions, access to evidence<sup>62</sup> under control of the opposing party.<sup>63</sup> Like other provisions in Part III, Article 43 does not provide for a straightforward obligation, but mandates Members to empower the judicial authorities to order the production of evidence by the opposing party. It will be up to such authority to exercise or not such a power in a particular case. According to this provision, the judicial authority may order one of the parties to produce evidence which lies in its control, provided that the following conditions are met:

(a) The complaining party has presented reasonably available evidence sufficient to support its claims. Prior to ordering the opposing party to produce evidence, the judicial authority must verify that the complaining party has provided its own “reasonably available” evidence. Large discretion is left to judges to assess when this condition has been met. It is unclear, however, at what stage of the procedures this may take place, since often the evidence is only assessed by the court after it has been substantiated in its totality by both parties. In some countries, however, the right to request the other party to submit evidence under its control is not subject to the condition imposed under Article 43.1.

(b) The complaining party has specified evidence relevant to the substantiation of its claims. The evidence is in the control of the opposing party. This condition imposes on the complaining party the burden to concretely specify the evidence that the opposing party possesses. A general statement about evidence under the opponent’s control would not suffice to meet this condition. Implicit in this requirement is that the order to produce evidence under this Article is to be made upon request of one of the parties, and not *ex officio*.

(c) The evidence in the control of the opposing party may include information (e.g., distribution channels used) or means (e.g., infringing articles, machinery used, etc.).

(d) Conditions which ensure the protection of confidential information are adopted in appropriate cases. The protection of “confidential information” is not subject, unlike in Article 42, to an examination of consistency under constitutional law, although if this were the case the latter would normally prevail in case of conflict.

The obligation to produce evidence applies to any of the parties. Though the right holder may be presumed to be the main beneficiary of this provision, the defendant may equally request the court to order the right holder to supply evidence that

<sup>62</sup> “Evidence” includes “testimony, writings or material objects offered in proof of an alleged fact or proposition” (*Black’s Law Dictionary*, sixth edition, 1990, p. 555).

<sup>63</sup> This provision reflects “the camel’s nose in the tent for discovery, long sought by advocates from English-speaking countries abroad” (Dratler, p. 1A-116).

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would support his claims (e.g., reports of foreign patent offices referring to the patentability of an invention).

#### 3.3.2 Article 43.2

2. In cases in which a party to a proceeding voluntarily and without good reason refuses access to, or otherwise does not provide necessary information within a reasonable period, or significantly impedes a procedure relating to an enforcement action, a Member may accord judicial authorities the authority to make preliminary and final determinations, affirmative or negative, on the basis of the information presented to them, including the complaint or the allegation presented by the party adversely affected by the denial of access to information, subject to providing the parties an opportunity to be heard on the allegations or evidence.

Article 43.2 provides that Members may accord to judicial authorities the authority to make preliminary and final determinations, affirmative or negative, on the basis of the information presented to them, in three different situations:

- a) A party to a proceeding voluntarily and without good reason refuses access to necessary information within a reasonable period. The authority must determine that there is no justified reason for refusal, as well as that the information is effectively necessary to make a determination. The simple convenience to get additional information would not be sufficient to exercise this authority. Further, though not explicitly indicated in Article 43.2, this Article must be read in conjunction with Article 43.1, leading to the interpretation that the information a party may be required to submit must be under its control. It would be contrary to everyone's basic right to defend his/her rights in court to require information that is not controlled by him/her.
- b) A party "otherwise does not provide" necessary information within a reasonable period. "Otherwise" should be interpreted here in relation to "access" and not to "good reason". If not, this sentence would contradict the condition indicated in a) above, since it would seem to empower the judge to adopt a determination even if the requested party had "good reasons" not to provide access. Such an interpretation would put an excessive and unfair burden on the requested party.
- c) A party "significantly impedes" a procedure relating to an enforcement action. This last situation goes well beyond the refusal to provide information and leaves open a "Pandora's box", since it would be up to the judicial authority to establish when a party has "significantly" impeded an enforcement procedure. To "impede", however, means to "retard by obstructing; hinder",<sup>64</sup> and not simply to articulate defences that make it difficult for the other party to advance. In any case, the applicability of this rule is quite hypothetical, since under civil enforcement procedures the parties are subject to specified terms and obligations, and it might be difficult to prove that a party has been able to *impede* a procedure.

<sup>64</sup> *The Concise Oxford Dictionary*, 1990, p. 591.

It should be noted that Article 43.2 refers to “information” and not to “evidence” like Article 43.1. In addition, this rule, which in any case is non-binding on Members, does not authorize the drawing of inferences from resistance to discovery, since in any case the decision must be based on “the information presented to them”, including “the complaint or the allegation presented by the party adversely affected by the denial of access to information”. In addition, both parties, including the party required to produce evidence, must be given “an opportunity to be heard on the allegations or evidence”.

### 3.4 Article 44

#### 3.4.1 Article 44.1

##### Article 44 Injunctions

1. The judicial authorities shall have the authority to order a party to desist from an infringement, *inter alia* to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs clearance of such goods. Members are not obliged to accord such authority in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right.

Article 44 deals with injunctions to be adopted when an infringement has been established. It also follows the “judicial authorities shall have the authority” formulation, in this case to order a party to desist from an infringement. This provision, in tone with the general approach under Part III, does not define the nature of the measure to be adopted, but only its purpose. Unlike Article 50, which essentially aims to prevent an infringement from occurring, Article 44 applies to an infringement that has already been determined.

This Article further mentions the particular case in which an injunction is necessary to prevent the entry into the channels of commerce of imported goods that involve the infringement of *any* type of intellectual property right, *immediately after* customs clearance of such goods. Though remedies may also be obtained under Article 51 of the Agreement, the latter is only binding in respect of trademark counterfeiting and copyright piracy, and applies before the release by the customs authorities of the infringing goods.<sup>65</sup>

An important exception to the rule established in Article 44.1 is that Members are not obliged to accord judges the authority to grant injunctions in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right.<sup>66</sup> This means that where

<sup>65</sup> See the analysis of Article 50 below.

<sup>66</sup> The U.S. and EC original proposals did not contain this limitation. The Anell Draft as of July 23, 1990, read as follows: “1A. The judicial authorities shall have the authority to issue upon request



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infringing matter is innocently acquired, Members are free to refuse an injunction and allow the *bona fide* acquirer to use or further dispose of the infringing subject matter.<sup>67</sup>

#### 3.4.2 Article 44.2

2. Notwithstanding the other provisions of this Part and provided that the provisions of Part II specifically addressing use by governments, or by third parties authorized by a government, without the authorization of the right holder are complied with, Members may limit the remedies available against such use to payment of remuneration in accordance with subparagraph (h) of Article 31. In other cases, the remedies under this Part shall apply or, where these remedies are inconsistent with a Member's law, declaratory judgments and adequate compensation shall be available.

Inspired by U.S. law and practice,<sup>68</sup> Article 44.2 explicitly excludes the granting of injunctions for cases of government use<sup>69</sup> and other uses permitted by the government without the authorization of the right holder, such as compulsory licenses.<sup>70</sup> This provision makes it clear that the title holder cannot prevent in these cases the exploitation of the respective subject matter, and that his sole right would be to claim payment of a remuneration in accordance with subparagraph (h) of Article 31.<sup>71</sup> This is subject to compliance of the "provisions of Part II specifically addressing use by governments, or by third parties authorized by a government". The only provisions addressing such issue refer to patents (Article 31) and layout designs of integrated circuits (Article 37.2).<sup>72</sup> Therefore, Article 44.2 (first sentence) does not apply to cases of government use or non-voluntary licenses in respect of IPRs covered by TRIPS other than patents and integrated circuits.<sup>73</sup>

an order that an infringement be refrained from or discontinued, irrespective of whether the defendant has acted with intent or negligence" (W/76).

<sup>67</sup> According to Dratler, p. 1A-103, the exception operates like a "sort of compulsory license by refusing an injunction and remitting the claimant to a damage remedy". See also Article 45, below.

<sup>68</sup> The text of Article 44.2 was included in the US proposal, but not in the EC submission for the enforcement part of TRIPS (see, e.g., Dreier, p. 262). The US law limits the right of holders of patents and copyrights to seeking "reasonable and entire compensation" from the US federal government where it has used their rights without authorization (see, e.g., Dratler, p. 1A-104).

<sup>69</sup> See Chapter 25.

<sup>70</sup> Ibid. See also Jerome Reichman and Catherine Hasenzahl, *Non-voluntary Licensing of Patented Inventions: Historical Perspective, Legal Framework under TRIPS, and an Overview of the Practice in Canada and the United States of America* (UNCTAD-ICTSD 2002), available at <<http://www.ictsd.org/iprsonline/unctadictsd/docs/reichman.Hasenzahl.pdf>>.

<sup>71</sup> See Chapter 25.

<sup>72</sup> Article 21 of the Agreement establishes that "the compulsory licensing of trademarks shall not be permitted" (see Chapter 14).

<sup>73</sup> On compulsory licenses relating to copyright and other IPRs, see e.g., Carlos Correa, *Intellectual property rights and the use of compulsory licenses: options for developing countries*, South Centre, Geneva 1999.

For these latter cases, Article 44.2 (second sentence) provides that “the remedies under this Part shall apply”, but “where these remedies are inconsistent with a Member’s law, declaratory judgments and adequate compensation shall be available”. It is to be noted that this provision broadly refers to “remedies under this Part” and not only to injunctions, which is the subject matter of Article 44. Most importantly, whenever other remedies are inconsistent with national laws, this provision expressly allows Members to limit remedies to declaratory judgment and “adequate” compensation.

When may certain remedies covered by Part III be deemed inconsistent with national law? This may occur when the Member does not provide for such a covered remedy, or when it would be contrary to national law provisions regarding, for instance, license of rights or compulsory licenses. The inconsistency standard in Article 44.2 (second sentence) does not require contravention of constitutional law (as required in the case of Article 42). In sum, subject to the availability of declaratory relief and adequate compensation, Article 44.2 (second sentence) preserves Members’ freedom to establish compulsory licenses and government use for copyrights, industrial designs and undisclosed information.

Finally, Members have considerable leeway to determine when the compensation would be deemed adequate under Article 44.2. The compensation in this context is intended to remunerate for the exploitation of the protected subject matter and not to compensate for the injury caused to the right holder, like in the case of damages.<sup>74</sup> A payment equivalent to a reasonable royalty as would be payable under a freely negotiated contract would be “adequate” in this case. The compensation may also be based on the recovery of costs. For instance, under U.S. law (28 USCS 1498), whenever an invention covered by a patent is used or manufactured by or for the United States without consent of the patent owner, the owner’s sole remedy is an action against the United States “for the recovery of his reasonable and entire compensation. Reasonable and entire compensation shall include the owner’s reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action ...”.

### 3.5 Article 45

#### 3.5.1 Article 45.1

##### Article 45 Damages

1. The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person’s intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.

The availability of damages and the amount of the award varies under national laws, often according to the type of intellectual property involved. Article 45

<sup>74</sup> See Article 45 below.

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imposes damages as a mandatory remedy. It requires the judicial authorities to have the power to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered. Members may define when compensation is to be deemed “adequate”.<sup>75</sup>

However, an infringer who did not know, or had no reasonable grounds to know, that he engaged in infringing activity is not required to pay damages, whatever the nature of his offence.<sup>76</sup> It is to be noted that there is only one provision in the Agreement that specifically mandates payment of a compensation by the *bona fide* acquirer: in the case of infringing integrated circuits, the *bona fide* acquirer is bound to pay the title holder a sum equivalent to a reasonable royalty such as would be payable under a freely negotiated license in respect of the protected layout-design (Article 37.1).<sup>77</sup>

#### 3.5.2 Article 45.2

2. The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

Article 45.2 (first sentence) contains another “the judicial authorities shall also have the authority” type of provision. It requires Members to empower the judges to order the infringer to pay the right holder expenses, which may include “appropriate” attorney's fees.<sup>78</sup> This obligation will be satisfied if judges are authorized to impose on the infringer the payment of expenses made in relation to the judicial action, but are not obliged to include attorney's fees, which is an exceptional measure in many jurisdictions.<sup>79</sup>

Lastly, Article 45.2 (second sentence) includes a further optional provision, according to which, in appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages. Unlike Article 45.1, this provision specifically indicates that damages may be calculated so as to allow for the “recovery of profits”,<sup>80</sup> or be based on damages set

<sup>75</sup> “Adequate” means “sufficient, satisfactory (often with the implication of being barely so)”, *The Concise Oxford Dictionary*, 1990, p. 14.

<sup>76</sup> See, e.g., Dratler, p. 1A-108.

<sup>77</sup> See Chapter 27. Note, however, that this liability arises only once the acquirer has lost his/her *bona fide* status. This is the prerequisite for his/her liability to arise.

<sup>78</sup> The facultative nature of this provision is in line with US law, under which it is discretionary to a US court to allow the recovery of costs and attorney's fees by the prevailing party. See, e.g., W. Herrington and G. Thompson, *Intellectual property rights and United States international trade laws*, Oceana Publications Inc., USA 2002, p. 7–20.

<sup>79</sup> See, e.g., Gervais, p. 207.

<sup>80</sup> When the loss of profits is difficult to calculate, courts often admit compensation based on the amount of net profits made from infringement.

by national laws (“pre-established damages”). This provision further indicates that this may apply even where the infringer did not knowingly, or had no reasonable grounds to know s/he did, engage in infringing activity, that is, in respect of a *bona fide* acquirer or user of protected subject matter.<sup>81</sup>

Members may provide measures for damages and other remedies that are more extensive than those required by TRIPS,<sup>82</sup> but in doing so they need not necessarily comply with the conditions set forth in Article 45.2 (second sentence). Hence, a Member may provide for the recovery of profits or pre-established damages but limit these measures to culpable and negligent infringers only. It should also be noted that TRIPS is intended (per the Preamble) not only to protect IPRs, but also to prevent distortions of international trade that may result from overprotection. Article 41.1 reiterates this general principle and may be used as a basis for evaluating whether overly aggressive remedies constitute a barrier to legitimate trade.

### 3.6 Article 46

#### Article 46 Other Remedies

In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed. The judicial authorities shall also have the authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements. In considering such requests, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account. In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.

With the same approach as used in most provisions in Part III, Article 46 obliges Members to give the judicial authorities additional powers “to create an effective

<sup>81</sup> The Anell Draft of July 23, 1990 contained the following provision: “8A The right holder shall be entitled to [obtain] [claim] from infringement [adequate] [full] compensation for injury he has suffered because of a [deliberate or negligent] infringement of his intellectual property right. The right holder shall also be entitled to claim remuneration for costs, including attorney fees, reasonably incurred in the proceedings. In appropriate cases, PARTIES may provide for recovery of profits and/or pre-established damages to be granted even where the infringer has not acted intentionally or negligently” (W/76).

<sup>82</sup> Article 1.1 of TRIPS (see Chapter 2).

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deterrent to infringement” where goods have been effectively found to be infringing. The measures that such authorities may have the power to adopt “without compensation of any sort” to the infringer, include:

a) To remove the infringing goods from commercial circulation. Such a removal would not apply, however, if the commercialization did not cause harm to the right holder (for instance, if distributed in local markets not supplied by the right holder and leakage to markets of interest to him is unlikely to occur);

With regard to counterfeit trademark goods, Article 46 establishes that the simple removal of the trademark<sup>83</sup> unlawfully affixed shall not be sufficient to permit release of the goods into commerce. The aim of this provision is to fight professional counterfeiting by avoiding that trademarks be unlawfully fixed again to the goods if released into commerce. However, simply removing the trademark may be possible “in exceptional cases” that Article 46 does not define, thereby leaving Members freedom to determine when such cases may arise (e.g., cases of non-professional infringement).<sup>84</sup>

b) To destroy the infringing goods, unless this would be contrary to existing constitutional requirements. This is a quite strong sanction, since in the absence of requirements set forth in the constitution itself, destruction may be deemed mandatory and may lead to significant economic waste and be socially questionable, especially in developing countries. The infringing goods may be supplied to charities or to government (if not involved in commercial activities for the legitimate goods).<sup>85</sup> However, judicial authorities (who are given the authority but are not obliged to order this measure) can adopt less disruptive measures.

c) To dispose of outside the channels of commerce materials and implements used in the creation of the infringing goods. This measure would apply when the “predominant” use of such materials and implements was to create infringing goods, and when disposition is necessary “to minimize the risks of further infringements”.

Lastly, Article 46 subjects the adoption of these measures to a proportionality test under which the seriousness of the infringement and the remedies ordered, as well as the interests of third parties, need to be taken into account. This means that judicial authorities need to balance the interests at stake and, at their discretion, can refuse the granting of the measures described in the first and second sentences of Article 46. One of the considerations that such authorities can make relates to the effects of the mandated remedies on third parties, for instance, distributors who may have ordered and paid for the infringer’s merchandise without knowing that these were counterfeit goods.

<sup>83</sup> It is interesting to note that the Anell Draft extended (though in a bracketed text) the same treatment to affixed geographical indications.

<sup>84</sup> See, e.g., Gervais, p. 209.

<sup>85</sup> These alternatives to destruction have been utilized, for instance, in the United States. See, e.g., Dratler, p. 1A-109.

### 3.7 Article 47

#### Article 47 Right of Information

Members may provide that the judicial authorities shall have the authority, unless this would be out of proportion to the seriousness of the infringement, to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution.

The right to obtain information from the infringer is a “may” provision, that is, Members are not obliged to stipulate it in national law. This provision only refers to orders by judicial authorities, and applies in civil and in administrative procedures.

The provision assumes that an infringement has been established: the obligation may be imposed on an “infringer”, and not generally on a “defendant”. Moreover, the rule introduces a proportionality test, that is, this obligation would only apply in cases of serious infringements. Should a Member country choose to establish this obligation, the courts would have considerable leeway to determine when an infringement is sufficiently serious to justify this measure.

Since the infringer would be obliged to inform the right holder and not directly the court, it may be assumed that the information is not indispensable for the court’s decision, and that the judicial authorities should only order it upon request of the right holder.

The content of the obligation is limited to providing information on:

a) The identity of third persons involved in the production and distribution of the infringing goods or services.

The obligation to provide information about third parties is limited to their identity. The infringer would not be obliged to provide other information such as the type of business or commercial activities of such parties, methods or technologies used, etc.

b) The channels of distribution of such third parties.

The limits of the obligation to inform about “channels of distribution” are more difficult to establish, since information about such channels may include data on persons, places of storage and sale, destination of infringing products, etc. This obligation does not seem to include upstream information about suppliers. Given the territoriality of IPRs, it would be reasonable to interpret that it only refers to distribution channels in the jurisdiction where infringement took place, but this point is unclear.

An obligation of the type established in Article 47 may be important to deal with professional infringers, so as to help the right holder to locate and take action against the infringers’ accomplices.<sup>86</sup>

Though Article 47 does not refer to the protection of confidential information, the general rule of Article 41 should apply.

<sup>86</sup> See, e.g., Gervais, p. 209.

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#### 3.8 Article 48

##### 3.8.1 Article 48.1

##### Article 48 Indemnification of the Defendant

1. The judicial authorities shall have the authority to order a party at whose request measures were taken and who has abused enforcement procedures to provide to a party wrongfully enjoined or restrained adequate compensation for the injury suffered because of such abuse. The judicial authorities shall also have the authority to order the applicant to pay the defendant expenses, which may include appropriate attorney's fees.

The risk of liability in enforcement procedures is a two-edged-sword.<sup>87</sup> Right holders may knowingly and in bad faith use IPRs to block legitimate competition. In these cases, the defendant is likely to suffer an important economic injury, such as when a provisional measure forces him out of the market.

Article 48.1 addresses these issues in the typical “the judicial authorities shall have the authority” format. It requires Members to empower judicial authorities to order a plaintiff who has “abused” enforcement procedures to provide to a defendant “wrongfully enjoined or restrained adequate compensation for the injury suffered because of such abuse”. This provision thus focuses on the abuse of enforcement procedures. The concept of abuse is also employed in several other provisions of TRIPS (Articles 8.2, 40.2, 41.1, 50.3, 53.2, 63.1, and 67), thereby strongly indicating the Agreement’s search for a balance between the protection of IPRs and the interests of third parties. Of course, when IPRs are abused not only the particular competitor whose activity has been restrained suffers, but also the general public unduly deprived of access to a competitive product or service.

An important interpretive issue is to determine when the exercise of enforcement proceedings may be deemed abusive. This would certainly be the case when the intention of the plaintiff has been to deliberately exclude an innocent competitor. But also in the absence of bad faith, abuse may take place when a serious departure from the reasonable use of enforcement proceedings is found.<sup>88</sup>

Article 48.1, which gives content to the general provisions contained in Articles 8.2<sup>89</sup> and, more specifically, Article 41.1,<sup>90</sup> applies when a party has been “wrongfully enjoined or restrained”, for instance, due to the adoption of a preliminary injunction. The plaintiff is required in these cases to pay an “adequate compensation for the injury suffered”.<sup>91</sup>

<sup>87</sup> See, e.g., Dratler, p. A-108.

<sup>88</sup> See, e.g., Gervais, p. 211.

<sup>89</sup> “Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders . . .”. See Chapter 29 of the Resource Book.

<sup>90</sup> See the analysis of this Article above.

<sup>91</sup> See above the analysis on the concept of “adequate compensation”.

Under a provision that mirrors Article 45.2,<sup>92</sup> the judicial authorities shall also have the authority to order the applicant to pay the defendant expenses, which may include “appropriate attorney’s fees”.

According to the language of Article 48.1, first sentence, one of the prerequisites of a possible indemnification of the defendant is the abuse by the plaintiff of enforcement procedures. For example, if the plaintiff initiates infringement proceedings in bad faith, knowing that the defendant is actually not infringing his/her rights, there would be abuse as required under Article 48.1. An important question arises as to whether Members may also provide for the compensation for the injury suffered by a defendant when there is no abuse on the part of the plaintiff, but at the same time, an infringement on the part of the defendant cannot be established. Examples would include controversial cases in patent litigation, where the application of the doctrine of equivalents<sup>93</sup> has led to a conclusion of non-infringement. In such cases, the plaintiff cannot be expected to refrain from the initiation of proceedings in the first place, because the exact scope of the patent claim is not obvious and can only be established through thorough examination of the infringement claim by a court. Thus, the plaintiff has not abused the procedures, but the defendant, if enjoined or restrained, may nevertheless have suffered an injury which is due to the initiation of infringement procedures by the plaintiff.

TRIPS does not prevent a Member from requiring the plaintiff to compensate the defendant in these cases. It is true that Article 48 refers to the indemnification of the defendant only in cases of abuse on the part of the plaintiff. But independently of Article 48, TRIPS is not intended to modify a Member’s domestic rules on the distribution of expenses of a court proceeding between the parties, unless this would disregard the TRIPS minimum standards for IP protection in that Member. If a Member chooses to impose on the losing party in a court proceeding an order to cover the expenses of the winning party, such expenses may include the costs arising from any enforcement procedure, including compensation for the injury suffered through injunctions.<sup>94</sup> This is a matter of domestic law and is not limited to IP issues but concerns enforcement proceedings for any kind of right. TRIPS would only affect Members’ sovereignty in this respect if its minimum standards on IP were threatened. But this is not the case. It is true that the prospect of a

<sup>92</sup> See above.

<sup>93</sup> For an explanation of this doctrine, see Chapter 17, Section 1. In actual practice, the operation of this doctrine is quite complex, and its scope under U.S. law has been the object of a recent U.S. Supreme Court ruling (see *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, partly overruling a decision of the U.S. Court of Appeals for the Federal Circuit (CAFC) in the context of an amended patent claim). For the purpose of this part of the book, it suffices to note that in patent cases involving the doctrine of equivalents, the outcome of an infringement proceeding is far from certain, due to the complex question whether a given element of a product/process may actually be considered “equivalent” to another element of a patented product/process. Under such circumstances, the initiation by the right holder of infringement proceedings cannot be considered to constitute “abuse” in the sense of Article 48.1, first sentence, of the TRIPS Agreement, even if eventually, the court comes to the conclusion that the infringement claim is not justified.

<sup>94</sup> See, for example, § 945 of the German Code of Civil Procedure.



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possible indemnification of the opposing party could deter a right holder from enforcing his right, especially in controversial cases where the outcome is not obvious. But the risk of having to bear the opposition's expenses (including the damage incurred through provisional measures) is inherent in any initiation of court proceedings against a third party. It is a risk that is not particularly related to the enforcement of IPRs and therefore, TRIPS is not intended to liberate IPR holders from such risk.

Thus, it may be stated that in cases where there is no abuse of enforcement proceedings on the part of the plaintiff and no infringement of any IPR on the part of the defendant, it is up to the domestic law of Members to provide for a possible indemnification of the expenses borne and the injury suffered by the defendant.

Further, under Article 48.1, second sentence, the judicial authorities shall also have the authority to order the applicant to pay the defendant's expenses, which may include appropriate attorney's fees. This provision mandates a treatment to the defendant, who was the victim of abusive enforcement proceedings, equivalent to that conferred to the plaintiff under Article 45.1.

#### 3.8.2 Article 48.2

2. In respect of the administration of any law pertaining to the protection or enforcement of intellectual property rights, Members shall only exempt both public authorities and officials from liability to appropriate remedial measures where actions are taken or intended in good faith in the course of the administration of that law.

Article 48.2 establishes an obligation with regard to the administration of any law pertaining to the protection or enforcement of IPRs. The purpose of the provision is to ensure that public authorities and officials are subject to liability where actions have been taken or intended in bad faith.

"Law" may be understood in the context of this provision, either in a formal sense, as legislation adopted by a national or regional parliament, or in a material sense, as any regulation dealing with the enforcement of IPRs. To the extent that the provision refers to "any" law, both federal and sub-federal legislation would be included. Further, no distinction is made between civil and criminal, or administrative and judicial procedures.

Article 48.2 prevents Members from exempting public authorities and officials from liability to appropriate remedial measures, except "where actions are taken or intended in good faith in the course of the administration of that law". Public authorities of any kind, whether judicial or administrative, and their officials are subject to this provision, which requires a judgment about the intention with which a measure has been adopted. Actions not conforming to the law, but adopted in good faith, may be exempted from the remedial measures mandated in this Article.

The Article leaves open to Members' decision the kind of remedial measures that may be applied.<sup>95</sup> This provision applies whether actions were taken upon request by the interested party or *ex officio*, to the extent that such actions were made in the normal course of administration of enforcement-related laws. The burden of proof that actions were not taken or intended in good faith would rest with the party that alleges misconduct; in other words, *bona fide* would be presumed.

Though Article 48.2 does not differentiate with regard to the party that may claim remedial action, it is included under the title "Indemnification of the Defendant". This indicates that it is intended to protect the defendant from abuses committed with the intervention of public authorities, in logical connection to Article 48.1.

### 3.9 Article 49

#### Article 49 Administrative Procedures

To the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in this Section.

Article 49 extends the application of the rules on procedures and civil remedies dealt with in Articles 41–48 to administrative procedures on the merits of the case. The rules applied, however, need not be identical but "conform to principles equivalent in substance" to those contained in Section 2 of Part III. Conformity with the "principles" and not with the "provisions" is required, thereby suggesting that there is considerable room to adapt the provisions set forth in that Section to the characteristics (e.g., informalism) of administrative procedures. The determination of what the principles are may certainly give rise to different opinions. Further, the equivalence required is "in substance" and not in detail.

As noted above, administrative procedures are also subject to the general obligations set forth in Article 41.

In some countries, administrative enforcement procedures are of particular importance. In China, for instance, there is a "dual-track" system of enforcement of IPRs, involving judicial or administrative authorities.<sup>96</sup> It has been estimated that around 90% of all patent litigation in China has involved the administrative authorities.<sup>97</sup>

<sup>95</sup> In contrast, the Anell Draft referred to "compensation" only: "PARTIES may provide for the possibility that such parties [may] [shall] be entitled to claim compensation from [authorities] [public officers] in appropriate cases, such as negligent or deliberate improper conduct. [they shall provide for such possibility in the case of administrative *ex officio* action.]").

<sup>96</sup> See, e.g., Liu Xiaohai, *Enforcement of intellectual property rights in the People's Republic of China*, IIC 2001, vol. 32, No. 2, p. 141.

<sup>97</sup> See, e.g., Matthew Murphy, *Patent litigation in China. How does it work?*, Patent World, June/July 2001, p. 19.

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#### 3.10 Article 50

##### 3.10.1 Article 50.1

#### SECTION 3: PROVISIONAL MEASURES

##### Article 50

1. The judicial authorities shall have the authority to order prompt and effective provisional measures:

- (a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance;
- (b) to preserve relevant evidence in regard to the alleged infringement.

Article 50 is the sole Article in Part III dealing with “Provisional measures”. It contains important procedural rules to deal with infringements that are taking place or that are imminent (Article 50.3).<sup>98</sup>

This Article sets forth the minimum requirements to be met by proceedings for provisional measures. Like other provisions in Part III, it establishes the obligation to empower judicial authorities (in this case, to grant provisional measures) and defines the results to be achieved rather than the conditions to do so. This leaves Members considerable leeway to implement the granting of provisional measures and, particularly, to determine the requirements to be imposed in accordance with each national legal system. There may be different views with respect to the question if Article 50 contains all the required elements to make it directly operative (“self-executing”). In order to be self-executing, a provision needs to provide a sufficient basis to apply in a concrete case, and to be intended by the parties to be self-executing.<sup>99</sup> It could be argued, on the one hand, that Article 50 lacks precision as to the conditions for the granting of provisional measures. Judicial authorities, in order to enter an order of the type referred to, would arguably depend on additional legislative measures in this respect. On the other hand, the view that Article 50 is sufficiently precise for direct application seems equally defensible: the provision states that the judicial authorities shall have certain competences, and that such competences may be exercised in two clearly defined cases, as stated in Article 50.1 (a) and (b) (see the quoted text, above). These provisions arguably provide sufficient details on the conditions to be met for the granting of provisional measures.<sup>100</sup>

<sup>98</sup> Note that Article 50.7 also refers to the “threat” of infringement of an intellectual property right.

<sup>99</sup> For more details on self-executing provisions, see Chapter 2.

<sup>100</sup> Note that, in some countries, Article 50 TRIPS has been deemed self-executing by case law. See, e.g., Carlos Correa, *Medidas cautelares en material de patentes de invención*, Lexis Nexis Jurisprudencia Argentina, JA-2002-IV, No. 8, p. 21–28 [hereinafter Correa, *Medidas cautelares*]. In the law of the European Community (EC), the European Court of Justice (ECJ) has repeatedly denied the self-executing character of the provisions of the TRIPS Agreement (and all other WTO

In any case, it appears useful to note that self-execution might not be favourable to developing Members in various contexts, including this one, leaving them less freedom as to the implementation of the provision.

As to the notion of “provisional measures” that aim at restraining a party from engaging in a particular act, these are generally known as “preliminary”, “interlocutory” or “interim” injunctions.<sup>101</sup>

The provisional measures, which should be “prompt and effective”, must be available to address two situations:

a) To prevent an infringement of any intellectual property right from occurring and, in particular, to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance.<sup>102</sup> This provision only applies to acts concerning commercialization within the jurisdiction of the Member,<sup>103</sup> and would not apply immediately upon exportation of infringing goods.<sup>104</sup> As to the notion of “intellectual property rights”, TRIPS does not provide an express definition. Instead, it refers, in Article 1.2, to all categories of IPRs that are the subjects of Part II, Sections 1 through 7. The European Court of Justice (ECJ) in its *Dior* decision has observed that TRIPS leaves WTO Members the freedom to specify in detail

“the interests which will be protected under TRIPS as intellectual property rights and the method of protection, provided always, first, that the protection is effective, particularly in preventing trade in counterfeit goods and, second, that it does not lead to distortions of or impediments to International trade.”<sup>105</sup>

Agreements). See its judgment of 14 December 2000 (*Parfums Christian Dior SA v TUK Consultancy BV and Assco Gerüste GmbH and Rob van Dijk v Wilhelm Layher GmbH & Co. KG and Layher BV*, joined cases C-300/98 and C-392/98, European Court Reports 2000, p. I-11307 [hereinafter *Dior*]). However, the ECJ in *Dior* also decided that in fields that do not fall within the scope of EC law but within the competence of the EU member states (such as rules on industrial designs), national legislation may confer upon individuals the right to directly rely on the provisions of Article 50 (*in casu* its paragraph 6) before national courts (see *Dior*, paragraphs 48, 49). Thus, the ECJ does not follow a uniform approach with respect to Article 50 TRIPS. This confirms that different views on the self-executing character of this provision are admissible.

<sup>101</sup> See, e.g., *Interim relief. A worldwide survey*, Managing Intellectual Property, November 1997, p. 35–44 [hereinafter *Managing Intellectual Property*].

<sup>102</sup> The same approach as examined above is adopted in Article 44. The difference between Article 44 and Article 50.1(a) is that in cases of Article 44, an infringement of IPRs has already occurred, while the procedure under Article 50.1(a) is supposed to prevent such a thing in the first place. Both Articles 44 and 50 have in common that they apply *after* customs clearance, as opposed to Article 51 (suspension of release by customs authorities), which applies to measures to be adopted *before* customs clearance.

<sup>103</sup> The Brussels Convention on Jurisdiction in the Enforcement of Judgements in Civil and Commercial Matters, applicable within the European Community, allows a provisional measure to be requested in the jurisdiction of a State even in cases where the jurisdiction of another State is competent to take a decision on the merits of the case (Article 24). For instance, cross border injunctions have been granted by courts in the Netherlands with respect to cases in Germany (see, e.g., *Managing Intellectual Property*, p. 35).

<sup>104</sup> See, e.g., Dreier, p. 264.

<sup>105</sup> ECJ, *Dior*, paragraph 60.

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This means that Article 50.1 accords Members the discretion to decide whether the term “intellectual property rights” encompasses not only national laws relating specifically to intellectual property, but equally general provisions of national law covering wrongful acts, in particular unlawful competition, that confer upon individuals the right to sue third parties for the alleged infringement of IPRs.<sup>106</sup>

b) The second situation to be addressed under Article 50.1 refers to the preservation of relevant evidence with regard to the alleged infringement. The scope of the preliminary relief, according to this provision, embraces the preservation of any evidence relevant to establish the infringement, and not only of the infringing products. “Anton Piller” orders have ordinarily been granted in common law countries for this purpose.<sup>107</sup>

In many countries injunctions are difficult to obtain in intellectual property disputes, particularly those involving patent infringement, because in most cases damages are a sufficient remedy until the issues of infringement and (validity) are settled at trial. Thus, in the USA the judge would normally consider whether:

- there is a reasonable likelihood that the patent, if challenged by the defendant as being invalid, be declared valid;
- any delay in granting such measures will cause an irreparable harm to the patent holder;
- the harm that may be caused to the title holder exceeds the harm that the party allegedly infringing the patent will suffer in case the measure was wrongly granted; and whether
- there is a reasonable likelihood that the patent is infringed; and granting of the measure would be consistent with the public interest.<sup>108</sup>

Preliminary injunctions have been characterized in the USA as the exception rather than the rule, including in trademark cases; the granting of such injunctions is deemed an exercise of a very far-reaching power, not to be ordered except in a case clearly demanding it.<sup>109</sup>

In Canada and Australia, a “balance of convenience” must also be in favour of granting the injunction; this means that in case a provisional measure is ordered, the inconveniences of both parties should be balanced in the sense that the measure should be adequate to its purpose (thus serving the interest of the

<sup>106</sup> See ECJ, Dior, paragraph 62, with respect to the Dutch Civil Code and Code of Civil Procedure, which may be invoked, *inter alia*, for the prevention of illegal copying of industrial designs.

<sup>107</sup> An “Anton Piller order” may be adopted so as to require the defendant to permit plaintiff’s representatives to enter the defendant’s premises and remove infringing items or obtain other evidence (photocopies, photographs, etc.) to be used to prove that an infringement has occurred.

<sup>108</sup> See, e.g., J. Reichman and M. Zinnani, *Las medidas precautorias en el derecho estadounidense: el justo balance entre las partes*, Lexis Nexis Jurisprudencia Argentina, JA 2002-IV, No. 8, p. 15–21 [hereinafter Reichman/Zinnani].

<sup>109</sup> See, e.g., Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, 4<sup>th</sup>. Edition, Thomson, West, USA 2002, vol. 5, pp. 30–59 [hereinafter McCarthy].

plaintiff), but should not be any more restrictive than absolutely necessary (thus serving the interest of the defendant).<sup>110</sup> The court would also consider the age of the patent and whether the validity of the patent is an issue, and would generally refuse an injunction if the defendant undertakes to keep an account of profits and appears likely to be able to meet an award against a final trial.<sup>111</sup> The balance of convenience is also applied in the United Kingdom, among other countries.<sup>112</sup>

Similarly, in order to obtain interlocutory injunctions (*référé d'interdiction provisoire*) in France, the patent must not obviously be null and void and the infringement must appear serious; in Germany such measures are granted where infringement and validity are clearly beyond doubt, and normally in cases of literal infringement and not where questions of equivalence arise; in Mexico, injunctions in patent infringement hardly ever take place, and an official expert must determine whether the patent is likely to be used by the person allegedly infringing the patent before a measure is granted; in the United Kingdom, it is also generally difficult to obtain an injunction because courts have taken the view that damages are quantifiable and would only proceed if damages are not an adequate remedy, taking the balance of convenience into account.<sup>113</sup>

### 3.10.2 Article 50.2

2. The judicial authorities shall have the authority to adopt provisional measures *inaudita altera parte* where appropriate, in particular where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed.

Article 50.2 requires that the judicial authorities also have the authority to adopt provisional measures *inaudita altera parte*.<sup>114</sup> This provision does not provide a general rule to establish when such measures are justified, but vaguely refers to its application “where appropriate” and in two particular cases:

- (a) where any delay is likely to cause irreparable harm to the right holder, or
- (b) where there is a demonstrable risk of evidence being destroyed.

In case (a) the critical element is the *delay* as a cause of an “irreparable harm”.<sup>115</sup> The latter would exist if the right holder were unlikely to obtain an adequate compensation for damages (for instance, because the infringer had no permanent

<sup>110</sup> See the Canadian Competition Tribunal of 22 March 1991, *Director of Investigation and Research v. Southam Inc.*, CT-901.4, paragraph (c) (may be consulted at <<http://www.canlii.org/ca/cas/cact/1991/1991cact11.html>>).

<sup>111</sup> See, e.g., *Managing Intellectual Property*, p. 36.

<sup>112</sup> *Idem*, pp. 37 and 43.

<sup>113</sup> *Idem*, pp. 38, 39, 42 and 43.

<sup>114</sup> Latin for “Without hearing the other Party”.

<sup>115</sup> An example of this type of measure is the “*Mareva*” injunction allowed under common law to temporarily freeze the defendant’s assets (generally bank deposits) that are required to satisfy a judgement in order to prevent their dissipation or removal from the jurisdiction.

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business activity in the country). The mere possibility of producing harm to the right holder would not be sufficient to ignore the defendant's basic right to be heard before an injunction or other relief is granted.

In case (b) an *ex parte*<sup>116</sup> provisional measure would proceed if the risk of evidence being destroyed is demonstrable. The applicant must duly substantiate his request.

It is up to Members to determine whether there are other cases in which *ex parte* provisional measures would be appropriate, but a prudent approach is advisable. In fact, in developed countries *ex parte* measures are only exceptionally granted. This is the case, for instance, in the USA,<sup>117</sup> Germany and France.<sup>118</sup> In Canada, patent infringement matters are not deemed to be of extreme urgency, and "it is difficult to imagine the circumstances where a Canadian court would consider it appropriate to grant relief without notice where there was only an allegation of patent infringement".<sup>119</sup>

#### 3.10.3 Article 50.3

3. The judicial authorities shall have the authority to require the applicant to provide any reasonably available evidence in order to satisfy themselves with a sufficient degree of certainty that the applicant is the right holder and that the applicant's right is being infringed or that such infringement is imminent, and to order the applicant to provide a security or equivalent assurance sufficient to protect the defendant and to prevent abuse.

Article 50.3 reflects the "check and balances" approach adopted in many provisions of Part III. The judicial authorities must have the authority to impose a number of requirements on the applicant of a provisional measure:

(a) to provide any reasonably available evidence in order to satisfy the authorities with a sufficient degree of certainty that the applicant (i) is the right holder and that (ii) the applicant's right is being infringed or that such infringement is imminent;

(b) to provide a security or equivalent assurance "sufficient to protect the defendant and to prevent abuse". The amount of the security or other assurance is to be determined by the national authority. It must be sufficient not only to compensate the defendant for losses generated, but also to prevent the abusive use of provisional measures to interfere with legitimate competition.

<sup>116</sup> Latin for "one-sided" (i.e., where the judge mainly bases his decision on the assertions of the plaintiff, if these appear substantiated. Details vary according to domestic laws.). The reason for this procedure is that the court has to act quickly, due to the danger of irreparable harm or a possible destruction of evidence.

<sup>117</sup> See, e.g., Reichman/Zinnani, p. 19.

<sup>118</sup> See, e.g., Joseph Straus, *Reversal of the burden of proof, the principle of 'fair and equitable procedures' and preliminary injunctions under the TRIPS Agreement*, The Journal of World Intellectual Property 2000, Vol. 3., No. 6., p. 815–820.

<sup>119</sup> Managing Intellectual Property, p. 37.

**3.10.4 Article 50.4**

4. Where provisional measures have been adopted *inaudita altera parte*, the parties affected shall be given notice, without delay after the execution of the measures at the latest. A review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period after the notification of the measures, whether these measures shall be modified, revoked or confirmed.

The same balancing approach as applied under Article 50.3 (see above) inspires Article 50.4, with regard to provisional measures adopted *ex parte*. The parties affected (that is, the alleged infringer, distributors, etc.) shall be given notice, without delay after the execution of the measures *at the latest*. As drafted, this provision implies that notice may be given *before* the execution of the provisional measure. In addition, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period after the notification of the measures, whether these measures shall be modified, revoked or confirmed. This review may take place either before or after the execution of the measure, depending on the date of notification. If revoked, the compensation established in Article 50.7 would apply.

**3.10.5 Article 50.5**

5. The applicant may be required to supply other information necessary for the identification of the goods concerned by the authority that will execute the provisional measures.

Article 50.5 contains a non-mandatory provision indicating that the applicant may be required to supply other information necessary for the identification of the goods concerned by the authority that will execute the provisional measures. This provision assumes that the authority that executes the measure may not be the (judicial) authority that ordered it, for instance, when the police or customs authorities intervene upon request of the latter.

**3.10.6 Article 50.6**

6. Without prejudice to paragraph 4, provisional measures taken on the basis of paragraphs 1 and 2 shall, upon request by the defendant, be revoked or otherwise cease to have effect, if proceedings leading to a decision on the merits of the case are not initiated within a reasonable period, to be determined by the judicial authority ordering the measures where a Member's law so permits or, in the absence of such a determination, not to exceed 20 working days or 31 calendar days, whichever is the longer.



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Paragraphs 6 and 7 of Article 50 refer in certain detail to obligations that must be imposed on the applicant of provisional measures. They aim at establishing safeguards to protect the alleged infringer from misconduct or abuses.<sup>120</sup>

Article 50.6 protects the party affected by a provisional measure from actions that are not effectively pursued in courts by the applicant. It establishes the right of the affected party to request that the provisional measure be revoked or otherwise cease to have effect, if proceedings leading to a decision on the merits of the case are not initiated within a reasonable period. This period is to be determined by the judicial authority ordering the measures where a Member's law so permits. In the absence of such a determination, the period shall not exceed 20 working days or 31 calendar days, whichever is the longer. The judicial authority or the national law may certainly establish a shorter period for the applicant to initiate proceedings.<sup>121</sup>

#### 3.10.7 Article 50.7

7. Where the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where it is subsequently found that there has been no infringement or threat of infringement of an intellectual property right, the judicial authorities shall have the authority to order the applicant, upon request of the defendant, to provide the defendant appropriate compensation for any injury caused by these measures.

Article 50.7 requires Members to grant the judicial authorities the power to order the applicant, upon request of the defendant, to provide the defendant appropriate compensation for any injury caused by a provisional measure, in three cases:

- (a) where the provisional measures are revoked. Revocation may take place on occasion of the review contemplated in Article 50.4.
- (b) where the provisional measures lapse due to any act or omission by the applicant; or
- (c) where it is subsequently found that there has been no infringement or threat of infringement of an intellectual property right.

It is to be noted that this provision uses the term “appropriate”<sup>122</sup> and not “adequate” like Articles 44.2 and 48.1, as examined above. It is unclear whether this difference was deliberate and intended to introduce a different standard.<sup>123</sup> In any case, the defendant should receive a compensation commensurate to “any” injury caused, including lost benefits and expenses incurred.

<sup>120</sup> See Article 41.1, above.

<sup>121</sup> Note that in the *Dior* case, the ECJ denied individuals in the EU the right to directly rely on Article 50.6 before domestic courts with respect to areas of law in which the EC has passed internal legislation. For more details, see above, under Article 50.1.

<sup>122</sup> “Appropriate” is “suitable or proper”, *The Concise Oxford Dictionary*, 1990, p. 53.

<sup>123</sup> As argued, e.g., by Gervais, p. 205.

**3.10.8 Article 50.8**

8. To the extent that any provisional measure can be ordered as a result of administrative procedures, such procedures shall conform to principles equivalent in substance to those set forth in this Section.

Finally, Article 50.8 provides that to the extent that any provisional measure can be ordered as a result of administrative procedures, such procedures shall conform to “principles equivalent in substance” to those set forth in other paragraphs of Article 50. This provision makes it clear (“[T]o the extent . . .”) that Members<sup>124</sup> are not obliged to empower administrative authorities to grant provisional measures. It employs the same wording as in Article 49, that is, administrative procedures need not be identical to those applicable by judicial authorities, but respond to the same principles, in substance and not in detail.

**3.11 Article 51****SECTION 4: SPECIAL REQUIREMENTS RELATED TO BORDER MEASURES\*****Article 51 Suspension of Release by Customs Authorities**

Members shall, in conformity with the provisions set out below, adopt procedures\*\* to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods\*\*\* may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. Members may enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met. Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories.

[Footnote]\*: Where a Member has dismantled substantially all controls over movement of goods across its border with another Member with which it forms part of a customs union, it shall not be required to apply the provisions of this Section at that border.

[Footnote]\*\*: It is understood that there shall be no obligation to apply such procedures to imports of goods put on the market in another country by or with the consent of the right holder, or to goods in transit.

[Footnote]\*\*\*: For the purposes of this Agreement:

(a) “counterfeit trademark goods” shall mean 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 thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;

<sup>124</sup> Administrative authorities have the power to adopt provisional measures in some countries (e.g., Peru, Mexico, China) but in others such measures can only be conferred by judicial authorities.

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(b) “pirated copyright goods” shall mean 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.

Section IV introduces the first set of international rules on counterfeiting and copyright piracy, thereby materializing a major objective of the proponents of TRIPS.<sup>125</sup> This Section has been largely modelled on the national laws<sup>126</sup> existing in developed countries at the time of the Uruguay Round negotiations. According to this Section, the customs authorities’ intervention should take place after the merchandise has been transported into the territory of a Member, but before it is released for consumption.<sup>127</sup> The obligations established therein only apply with regard to the importation of counterfeit trademark or pirated copyright goods. Members may also provide for corresponding procedures for infringing goods destined for exportation, as provided for in some countries<sup>128</sup> and in recent bilateral free trade agreements,<sup>129</sup> but this is a “TRIPS-plus” requirement that Members are not obliged to implement.

Border measures are required because enforcement against infringement at the source of the imported goods has failed. An important feature of the procedures under Section IV is that they involve two separate steps. Customs authorities’ intervention is required only with regard to the execution of a specific provisional measure, while it is up to the “competent authorities, administrative or judicial” (Article 51) to decide on the merits of a particular case, that is, to determine whether the goods at stake are or not counterfeit trademark or pirated copyright goods.

According to Article 51, the application to suspend the release of goods must also be lodged with the “competent authorities, administrative or judicial”. An “administrative authority” in this context may be the customs authority itself, as established in some countries.<sup>130</sup> However, there is no obligation under Article 51 to empower such authority to directly adopt provisional measures, and in many countries this is an exclusive competence of the judicial authorities.

<sup>125</sup> The Preamble of the TRIPS Agreement recognizes “the need for a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods”. See Chapter 1.

<sup>126</sup> For an analysis of national border regulations, see *Border control of intellectual property rights* Sweet & Maxwell, Hampshire 2002.

<sup>127</sup> See, e.g., Fabio Ponce Lopez, *Observancia de los Derechos de la Propiedad Intelectual en Aduanas. Procedimientos, acciones y competencias (Parte III, Sección 4 de los ADPIC)*, WIPO seminar for the Andean Community on the observation of intellectual property rights at the border, Bogota, D C; July 11, 2002, p. 2 [hereinafter Ponce Lopez].

<sup>128</sup> See, e.g., Article 246 (c) of Decision 486 (Andean Community Common Regime on Industrial Property).

<sup>129</sup> See, e.g., Article 17.11.20., Free Trade Agreement between Chile and the USA.

<sup>130</sup> E.g., Spain, Panama. See Ponce Lopez, p. 9.

Members are obliged to adopt procedures as mandated in Article 51 only with regard to counterfeit trademark or pirated copyright goods, and not in respect of other types of infringement concerning trademarks (e.g., “passing off”, improper use of a trademark)<sup>131</sup> or copyright (e.g., substantial similarity, adaptation without the author’s permission).<sup>132</sup> This provision does not apply either to other types of intellectual property rights. The reason for this differentiation is that infringement in the case of trademark counterfeiting and copyright piracy may generally be determined with certain ease, on the basis of the visual inspection of an imported good, since infringement will be apparent “on its face”.

In order to obtain the suspension of release, the right holder must prove that he “has valid grounds for suspecting” that infringing goods covered by Article 51 are being imported. He must show that there is *prima facie* an infringement. Unlike Article 50, however, this provision does not impose an “irreparable harm” standard, despite that the measures at the border are adopted *inaudita altera parte*. Therefore, the likelihood of an infringement would be sufficient to trigger the procedures under Section 4.

It should be noted that Article 51 does not impose on custom authorities any obligation to inspect imported goods. In fact, such authorities routinely inspect a small fraction of such goods.<sup>133</sup> Moreover, there is no obligation to intervene *ex officio*. Article 51 requires a specific request by the right holder for the custom authority to take action.

The first footnote, quite logically, exempts Members that form part of a customs union from the application of Section 4, provided they have dismantled substantially all controls over the movement of goods across its border with other Members of the union, like, for instance, the member states of the European Union.

<sup>131</sup> In this context, it is important to clarify the difference between “counterfeit trademark goods” as covered by Article 51 and “passing off”, which is not encompassed by this provision. The notion of “counterfeit trademark goods” as defined in footnote 14 to Article 51 (see below) requires the existence of a registered trademark, which is used by an unauthorized third party, thereby infringing the exclusive right of the trademark owner. By contrast, the doctrine of passing off (also called sometimes “palming off”) is much wider, referring to unfair competition more generally, applying also to cases where no trademarks or other IPRs are involved (see <[http://www.intellectual-property.org.uk/std/resources/other\\_ip\\_rights/passing\\_off.htm](http://www.intellectual-property.org.uk/std/resources/other_ip_rights/passing_off.htm)>). “Passing off” broadly refers to causes of action based on the injury that is suffered by a business through a false representation by a competitor that its product comes from the same source. Thus, passing off is a broader category than trademark counterfeiting, encompassing the latter, but going beyond such cases. Those cases of passing off that do not involve trademarks are therefore not covered by Article 51. On the common law doctrine of passing off, see W. R. Cornish, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (4<sup>th</sup> ed. 1999), at Chapter 16. See also Chapter 15 of this book on geographical indications.

<sup>132</sup> It appears useful to highlight the difference between the copyright cases covered by Article 51 and the situations that fall outside the scope of this provision. Copyright piracy within the meaning of Article 51 and its footnote 14 (see below) requires the *copying* of a copyrighted good, as opposed to the above mentioned cases where a third person produces a work that is not a copy of, but substantially similar to the protected work, or that modifies the protected work without the right holder’s authorization. Such cases do not fall within the category of “pirated copyright goods”.

<sup>133</sup> See the commentary on Article 58, below.

### 3. Possible interpretations

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The second footnote of this Article addresses the issue of parallel imports in the context of trademark and copyright protection. It indicates that the obligation to suspend the release of goods contained in Article 51 would not apply when the products have been put in commerce “by or with the consent of the right holder”. Parallel trade in trademarked goods (often called the “grey market”) is admitted in many countries. This is the case, for instance, in the USA, where a Supreme Court Decision of June 1989 allowed retailers to import trademarked foreign-made watches, cameras, perfumes, and other goods from foreign independent distributors.<sup>134</sup>

It could be argued that the second footnote may also have interpretive value with regard to parallel trade in goods protected by other IPRs, particularly patents. If so, this would imply that parallel trade would not be legitimate when products are introduced in a foreign market without the consent of the right holder, for instance, by a compulsory license. However, the footnote clearly applies to certain cases of infringement of trademark and copyright only, and there is no solid basis to extend it into other fields in a manner that would limit the rights conferred on Members under Article 6 of the Agreement, as confirmed by the Doha Declaration on the TRIPS Agreement and Public Health.<sup>135</sup>

The second footnote also clarifies that it is not mandatory to apply border measures with regard to “goods in transit”. Some countries, however, have extended those measures to such products.<sup>136</sup>

The third footnote contains definitions for the purposes of the Agreement of “counterfeit trademark goods” and of “pirated copyright goods”. Reference to counterfeiting goods is made, in addition to Article 51, in the Preamble and in Articles 46, 59, 61 and 69, while pirated copyright goods or piracy are only referred to in Articles 61 and 69, as examined below. These definitions clarify that the possible existence of infringement is to be considered in accordance with the law of the country of importation. Trademark counterfeiting is not limited to the case of the unauthorized use of a trademark identical to the trademark validly registered in respect of such goods, but also includes cases where it “cannot be distinguished in its essential aspects from such a trademark”. Copyright piracy, on the other hand, includes copies made “directly or indirectly” from a copyrighted

<sup>134</sup> To get around the 1989 Supreme Court ruling, many manufacturers tried copyrighting the packaging on their goods. The Coalition to Protect the Integrity of American Trademarks (COPIAT) articulated this argument in the case *Parfums Givency, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9<sup>th</sup> Cir. 1994), but in March 1998 the Supreme Court defeated this legal strategy. See Paul R. Paradise, *Trademark Counterfeiting: Product Piracy and the Billion Dollar Threat to the U.S. Economy*, Quorum Books, Westport, Connecticut 1999, p. 30 [hereinafter Paradise].

<sup>135</sup> “The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4” (para. 5.d). See “Doha Ministerial Declaration on the TRIPS Agreement and Public Health” (hereinafter “the Doha Declaration”), WT/MIN(01)/DEC/W/2, 14 November 2001. See also Chapter 25.

<sup>136</sup> EC Regulation 3295/94, for instance, applies to goods in “external transit”, that is, non-Community goods moving within the Community or exceptionally Community goods destined for export and for which custom procedures are complied with. See, e.g., Buydens, p. 13.

article, thereby including not only the first but subsequent copies of a protected work.

### 3.12 Article 52

#### Article 52 Application

Any right holder initiating the procedures under Article 51 shall be required to provide adequate evidence to satisfy the competent authorities that, under the laws of the country of importation, there is *prima facie* an infringement of the right holder's intellectual property right and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities. The competent authorities shall inform the applicant within a reasonable period whether they have accepted the application and, where determined by the competent authorities, the period for which the customs authorities will take action.

A right holder willing to obtain a border measure of the type established under Article 50 must comply with two basic requirements:<sup>137</sup>

(a) to provide “adequate evidence” to satisfy the competent authorities that, under the laws of the country of importation, there is *prima facie* an infringement. This means that the evidence provided must satisfy the competent authorities that there is a likely infringement of IPRs.

(b) to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities. This provision only requires information for the customs authorities to identify the allegedly infringing goods, but their inspection to determine whether *prima facie* infringement exists or not can be made by a different authority, e.g., by a court.

Finally, Article 52 requires the competent authorities to inform (whether in written form or not)<sup>138</sup> the applicant “within a reasonable period” whether they have accepted the application and, where determined by the competent authorities, the period for which the customs authorities will take action. Only a “reasonable period”, to be determined by the Member's national law is required. Notification need not be immediate or “without delay” as provided for; for instance, under Article 50.4. The notification may include information about the period for which the customs authorities will detain the goods, where the competent authority has established such a period.<sup>139</sup>

<sup>137</sup> See also Article 53 with regard to securities or equivalent assurances.

<sup>138</sup> The requirement to inform in a written form applies, as discussed above, to decisions on the merits of the case (Article 41.3) and in respect of notices to the defendant (Article 42).

<sup>139</sup> The Anell Draft of July 23, 1990, indicated in a bracketed text that was not finally adopted, the applicant's obligation to specify the length of the period for which the customs authorities would be requested to take action (W/76).

### 3. Possible interpretations

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#### 3.13 Article 53

##### 3.13.1 Article 53.1

##### Article 53 Security or Equivalent Assurance

1. The competent authorities shall have the authority to require an applicant to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities and to prevent abuse. Such security or equivalent assurance shall not unreasonably deter recourse to these procedures.

Article 53.1 is drafted in the typical “the competent authorities shall have the authority to” format and is intended to avoid abuses<sup>140</sup> by requiring the applicant of border measures to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities. The protection to be provided under this Article is for the defendant (though at this stage of the procedures there may be none) and the customs authorities as such, which may be liable in case they adopt measures that unjustifiably interfere with the legal activities of traders. The obligation to provide a security, thus, should act as a deterrent to anticompetitive practices.

Article 53.1, however, cautions that the security or equivalent assurance that is requested “shall not unreasonably deter recourse to these procedures”, that is, it should not be of such an unreasonable amount that would inhibit interested parties from applying for border measures. This provision leaves significant latitude to Members to determine what “unreasonable” means in this context.

##### 3.13.2 Article 53.2

2. Where pursuant to an application under this Section the release of goods involving industrial designs, patents, layout-designs or undisclosed information into free circulation has been suspended by customs authorities on the basis of a decision other than by a judicial or other independent authority, and the period provided for in Article 55 has expired without the granting of provisional relief by the duly empowered authority, and provided that all other conditions for importation have been complied with, the owner, importer, or consignee of such goods shall be entitled to their release on the posting of a security in an amount sufficient to protect the right holder for any infringement. Payment of such security shall not prejudice any other remedy available to the right holder, it being understood that the security shall be released if the right holder fails to pursue the right of action within a reasonable period of time.

Article 53.2 addresses the case in which the release of allegedly infringing goods into free circulation has been suspended by customs authorities on the basis

<sup>140</sup> The Anell Draft referred to “avoid border enforcement procedures being abused by means of unjustified or frivolous applications” (W/76).

of a decision other than by a judicial or other independent authority. This is, hence, a specific safeguard that applies when a court or an authority independent from the customs has not had an opportunity to consider the case and order the suspension.

Article 53.2 only applies in relation to industrial designs, patents, layout-designs and undisclosed information, and not trademarks, copyright and geographical indications. It is a “slightly unusual provision”,<sup>141</sup> since it regulates measures that Members are *not* obliged to order under Article 51, which, as examined above, is only mandatory with regard to counterfeit trademarks and pirated copyrights.

This Article applies where the period provided for in Article 55 has expired<sup>142</sup> without the granting of the provisional measure by the “duly empowered authority” (which may be a court or another administrative authority independent from customs), and where all other conditions for importation (that is, the *normal* requirements imposed in the importing country) have been complied with.

Subject to these conditions, the owner, importer, or consignee of the allegedly infringing goods shall be entitled to their release on the posting of a security. No reference is made in this Article to securing an “adequate” or “appropriate” compensation, like in other provisions of Part III, but simply to “an amount sufficient to protect the right holder for any infringement”. Members are free to determine the criteria to determine such an amount. However, payment of the security shall not prejudice “any other remedy available to the right holder”. The security shall be released if the right holder fails to pursue the right of action within a “reasonable” period of time, to be also determined by national law.

### 3.14 Article 54

#### Article 54 Notice of Suspension

The importer and the applicant shall be promptly notified of the suspension of the release of goods according to Article 51.

Both the importer and the applicant must be notified if the suspension of the release of goods has been decided by the competent authority. This should be done “promptly”. Though this may be interpreted as equivalent to “undue delay”<sup>143</sup> or “immediately”,<sup>144</sup> there is also some latitude here to determine the exact period. Of course, given the economic consequences that an unjustified suspension may entail, it would be to the benefit of both the applicant and of the importer (and also of the competent authority) that notice be given as soon as feasible.

<sup>141</sup> See Dreier, p. 266, who notes that a similar provision was not in the original U.S. and EC proposals, and that it was included because of the U.S. concern that border measures could be abused in some developing countries as a device to obstruct the importation of U.S. goods.

<sup>142</sup> See the commentary on this provision, below.

<sup>143</sup> See Article 41.3.

<sup>144</sup> See Articles 44.1 and 50.1(c).



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#### 3.15 Article 55

##### Article 55 Duration of Suspension

If, within a period not exceeding 10 working days after the applicant has been served notice of the suspension, the customs authorities have not been informed that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly empowered authority has taken provisional measures prolonging the suspension of the release of the goods, the goods shall be released, provided that all other conditions for importation or exportation have been complied with; in appropriate cases, this time-limit may be extended by another 10 working days. If proceedings leading to a decision on the merits of the case have been initiated, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period, whether these measures shall be modified, revoked or confirmed. Notwithstanding the above, where the suspension of the release of goods is carried out or continued in accordance with a provisional judicial measure, the provisions of paragraph 6 of Article 50 shall apply.

Article 55 explicitly applies to both imports and exports. Unlike other provisions commented above, it contains a specific time period for action by the competent authority. Within a period not exceeding 10 working days after the applicant has been notified of the suspension, the allegedly infringing goods shall be released if the customs authorities have not been informed that:

- (a) proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or
- (b) the competent authority has taken provisional measures prolonging the suspension of the release of the goods.

The condition under (a) requires that the applicant or another party initiated a case in order to obtain a decision on the merits of the case. If it is the defendant himself who has initiated such procedures, the release should be ordered. Article 55 seems to assume that the title holder should request that a decision on the merits be taken by the same authority that adopted the provisional measure.

Like in the case of Article 53.2, release is subject to compliance with “all other conditions” for importation or exportation”. In “appropriate cases” (to be determined by Members’ regulations), the ten-day period may be extended by another 10 working days.

Article 55 specifies that if proceedings leading to a decision on the merits of the case have been initiated, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period, whether these measures shall be modified, revoked or confirmed. It is to be noted that, unlike Article 50.4, the right to review is subject according to Article 55 to the initiation of proceedings on the merits of the case. However, where the suspension of the release of goods is carried out or continued in accordance with

a provisional judicial measure, the provisions of Article 50.6 shall apply. As a result, a period not exceeding 20 working days or 31 calendar days, whichever is the longer, would apply. If a decision on the merits has been requested, the title holder may also request that the provisional measure (that is, the suspension of release) be maintained until such decision is taken.

### 3.16 Article 56

#### Article 56 Indemnification of the Importer and of the Owner of the Goods

Relevant authorities shall have the authority to order the applicant to pay the importer, the consignee and the owner of the goods appropriate compensation for any injury caused to them through the wrongful detention of goods or through the detention of goods released pursuant to Article 55.

Article 56 empowers the authorities that are competent according to the national law to order the applicant to pay the importer, the consignee and the owner of the goods an “appropriate” compensation if the suspension of the release of goods was “wrongful” or where procedures to obtain a decision on the merits of the case was not initiated in accordance with Article 55.

The compensation must be sufficient to cover “any injury caused”, which may include lost benefits due to the detention, and expenses incurred (e.g., attorneys’ fees). Compensation is to be paid to the importer, the consignee *and* the owner of the goods, that is, the applicant is liable to indemnify all those who may have suffered an economic loss because of the border measure.<sup>145</sup>

It is to be noted, finally, that the obligation to indemnify under this Article creates an objective liability, since it is not dependent on the bad faith or otherwise malicious intent of the applicant.

### 3.17 Article 57

#### Article 57 Right of Inspection and Information

Without prejudice to the protection of confidential information, Members shall provide the competent authorities the authority to give the right holder sufficient opportunity to have any goods detained by the customs authorities inspected in order to substantiate the right holder’s claims. The competent authorities shall also have authority to give the importer an equivalent opportunity to have any such goods inspected. Where a positive determination has been made on the merits of a case, Members may provide the competent authorities the authority to inform the right holder of the names and addresses of the consignor, the importer and the consignee and of the quantity of the goods in question.

<sup>145</sup> There may also be other affected parties (e.g., carriers, distributors, retailers) who may potentially claim damages as well, but under general principles and rules of national law.

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Article 57 provides (under the “Members shall provide the competent authorities the authority” formulation) for two different kinds of rights in border procedures:

- (a) the right of inspection: both the right holder and the importer must be given “sufficient opportunity” to have any goods detained inspected in order to substantiate the right holder’s claims or to articulate the defence, respectively;
- (b) the right of information: Members may provide the competent authorities the authority to inform the right holder of the names and addresses of the consignor, the importer and the consignee, and of the quantity of the goods in question. The obvious purpose of this provision (which is not mandatory) is to allow the right holder to act against all those that were possibly involved in the infringement; this is despite the fact that they may have acted in good faith and without having reason to know that the goods were infringing. This right only arises (if established by the national law) where a positive determination has been made on the merits of a case.

Both the right of inspection and the right of information (if conferred) are subject to the protection of “confidential information”.<sup>146</sup> Article 57 does not clarify to whose benefit this protection should be established, thereby suggesting that any party may invoke it and that the competent authorities must not confer such rights when a violation of such information may occur.

#### 3.18 Article 58

##### Article 58 *Ex Officio* Action

Where Members require competent authorities to act upon their own initiative and to suspend the release of goods in respect of which they have acquired *prima facie* evidence that an intellectual property right is being infringed:

- (a) the competent authorities may at any time seek from the right holder any information that may assist them to exercise these powers;
- (b) the importer and the right holder shall be promptly notified of the suspension. Where the importer has lodged an appeal against the suspension with the competent authorities, the suspension shall be subject to the conditions, *mutatis mutandis*, set out at Article 55;
- (c) Members shall only exempt both public authorities and officials from liability to appropriate remedial measures where actions are taken or intended in good faith.

The provisions in Articles 51–60 do not entail specific inspection obligations for customs authorities with regard to IPR-protected goods, nor to act *ex officio*. If they opt to do so, they must comply with the conditions set forth in Article 58. In general, customs authorities only inspect *ex officio* a small proportion of all trade,

<sup>146</sup> See the commentary on Article 42 above.

notably in order to verify the valuation of goods for the purpose of applying tariffs and other charges.<sup>147</sup>

Article 58 applies only “where Members require competent authorities to act upon their own initiative and to suspend the release of goods in respect of which they have acquired *prima facie* evidence that an intellectual property right is being infringed”. This means that (a) the said Article is not binding in cases where national law does not provide for an *ex officio* intervention and for the power to suspend release, and (b) that establishing such a form of intervention is entirely left to Members’ discretion.

Article 58(a) is formulated as a facultative provision, but a correct reading thereof would indicate that whenever the competent authorities seek information that may assist them to exercise these powers, the right holders would be obliged to provide it. Failure to do so may obviously lead to a decision by the authorities not to take action in the particular case.

The obligation to notify the suspension applies equally with regard to the importer and the right holder. Quite logically, Article 58(b) requires that the same conditions be applied to an appeal by the importer as established in Article 55.

Article 58 (c), finally, does not contain conditions for *ex officio* measures but limits, like Article 48.2, Members’ right to exempt public authorities and officials from liability to appropriate remedial measures to cases where actions were taken or intended in good faith in the course of the administration of that law.<sup>148</sup>

### 3.19 Article 59

#### Article 59 Remedies

Without prejudice to other rights of action open to the right holder and subject to the right of the defendant to seek review by a judicial authority, competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46. In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances.

In the usual “competent authorities shall have the authority to” format, this clause requires Members to empower the authorities (judicial or administrative) to order the destruction or disposal of infringing goods. This is subject

- (a) to the right of the defendant to seek review by a judicial authority;
- (b) to the “principles” set out in Article 46, that is,

- without compensation of any sort;
- in order to avoid any harm caused to the right holder;
- if not contrary to existing constitutional requirements.

<sup>147</sup> In the USA, for instance, customs examiners usually inspect about 5% of the goods entering the country, looking for contraband, contaminated food products, diseased animals, and goods that are either illegal or pose a danger to the public. See, e.g., Paradise, p. 29.

<sup>148</sup> See Article 48.2 above.

### 3. Possible interpretations

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In addition, counterfeit trademark goods cannot be re-exported in “an unaltered state” but may be exported if somehow altered or subject to a different customs procedure, other than in exceptional circumstances. The Agreement is not explicit about the extent of the alteration, which is to be determined by national law. A reasonable standard would be an alteration that is sufficient to differentiate those products from those legitimately commercialized, for instance, by removing the infringing trademark.

#### 3.20 Article 60

##### Article 60 De Minimis Imports

Members may exclude from the application of the above provisions small quantities of goods of a non-commercial nature contained in travellers’ personal luggage or sent in small consignments.

“De minimis” clauses can be found in other components of the WTO system.<sup>149</sup> Article 60 is also a *may* provision which reflects not only the difficulty that customs authorities face in controlling imports in small quantities, but also the fact that title holders will not normally be interested in bearing the costs of enforcement procedures in such cases. The “above provisions” refer to the other provisions in Section 4.

#### 3.21 Article 61

##### SECTION 5: CRIMINAL PROCEDURES

##### Article 61

Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.

Article 61 creates an obligation to provide for criminal procedures and penalties for cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Several aspects of this provision need to be highlighted.

First, though during the negotiations some delegations argued for a comprehensive application of criminal procedures and sanctions, this provision does not

<sup>149</sup> See, e.g., Article 5.8 of the Antidumping Agreement, Article 11.9 of the Agreement on Subsidies and Countervailing Measures.

oblige Members to apply the same rule in other fields of intellectual property. Members are, however, free to do so, and many do in fact provide for such remedies and penalties in other areas, notably patents.

Second, criminal procedures and penalties are only required in relation to specific types of trademark and copyright infringement: trademark counterfeiting and copyright piracy, as defined in Article 51 of the Agreement. The provision, hence, does not cover other forms of violation, such as atypical uses of trademarks or reprography.

Third, Article 61 only covers “wilful” infringement, thereby excluding acts done without knowing or having reasonable grounds to know that an infringement was taking place.

Lastly, infringement that cannot be deemed “on a commercial scale” (e.g., isolated acts of infringement even if made for profit) is not subject to this provision.

The second and third sentences of Article 61 specify the content of criminal remedies, without going, however, into details. Penalties must include imprisonment or monetary fines, while Members may apply both measures and other criminal penalties if they wish. The standard to assess compliance with Article 61 is based on two elements: (a) remedies must be “sufficient to provide a deterrent” to infringement, and (b) the level of penalties applied in these cases must be consistent with that applied for crimes of “a corresponding gravity”. Members have considerable discretion to determine how to apply these standards and, particularly, to establish which are the crimes of comparable gravity in the national context.

In “appropriate cases” (to be determined by the national law), remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Unlike Articles 46 and 59, which subject the destruction of goods to existing constitutional requirements, Article 61 does not contain this limitation. Though the difference may be justified by the criminal nature of the offence, it is also true that destruction of goods may represent a significant economic loss and be regarded as socially unacceptable.<sup>150</sup>

Article 61, last sentence, contains a “may” provision emphasizing the Members’ faculty to adopt a “TRIPS-plus” approach, in particular, where infringement is committed wilfully and on a commercial scale. This sentence refers to other types of infringement in the field of trademark and copyright law, as well as to violations of other types of IPRs.

It must be noted that countries have had very different approaches with regard to the application of criminal penalties in cases of IPR infringement. In the USA, for instance, criminal penalties and stiff civil remedies are available under federal law (and some state laws) for intentionally dealing in goods or services knowingly using a counterfeit mark.<sup>151</sup>

<sup>150</sup> In the case of conflict between a constitutional provision and the mandate in Article 61, an interesting case about the extent to which WTO rules limit national sovereignty may arise.

<sup>151</sup> Federal criminal penalties include: (a) fines for individuals up to \$2,000,000 (\$5,000,000 for subsequent offences), or imprisonment not exceeding ten years (twenty years for subsequent offences), or both; and fines for corporations or partnership up to \$5,000,000 (\$15,000,000 for subsequent

### 3. Possible interpretations

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In many developing countries criminal penalties apply in cases of patent infringement as well. This may constitute an important deterrent for companies, especially small and medium enterprises, willing to operate around patented inventions. A criminal accusation carries out many negative effects (in terms of prestige, defence costs, restrictions to travel abroad, etc.). Even if the defendants can prove to be innocent, the risk of facing criminal actions may often be strong enough to dissuade a firm from activities that the title holder may argue are infringing. Unlike the case of trademark counterfeiting or copyright piracy, a patent infringement cannot be established without an expert investigation, including determining whether there is “equivalence” or not. This may explain why in countries that are deemed to confer a high level of patent protection, such as the USA, there are no criminal penalties for patent infringement under federal law. In the USA two civil remedies are available: an injunction against future infringement, and compensatory damages (at least equal to a reasonable royalty), which may be trebled.<sup>152</sup>

Often, criminal sanctions are graduated according to the subject matter involved, the importance of the infringement, and whether subsequent offences take place. For instance, the U.S. Copyright Act, as amended in 1992, stipulates that an infringement with regard to phonorecords becomes a felony depending on the number of infringing copies made or distributed and their retail value. The penalty may be up to five years’ imprisonment, or a fine, or both, in case of reproduction or distribution of at least 10 copies above a minimum retail value during six months. Imprisonment of up to 10 years may apply in case of a second or subsequent infringement.<sup>153</sup>

#### 3.22 Article 62

##### 3.22.1 Article 62.1

**PART IV ACQUISITION AND MAINTENANCE OF INTELLECTUAL  
PROPERTY RIGHTS AND RELATED *INTER-PARTES* PROCEDURES**  
**Article 62**

1. Members may require, as a condition of the acquisition or maintenance of the intellectual property rights provided for under Sections 2 through 6 of Part II, compliance with reasonable procedures and formalities. Such procedures and formalities shall be consistent with the provisions of this Agreement.

Article 62 is the sole provision making up Part IV of TRIPS. Its first paragraph takes account of the fact that in many domestic laws, the acquisition and maintenance of

offences); and (b) destruction of articles bearing the counterfeit mark. See Paradise, p. 8 and 18.

<sup>152</sup> See, e.g., Paradise, p. 14. It has been noted that the treble damages procedures for wilful infringement may deter those within a firm even from reading patents which may be relevant to their technologies. See John Barton, *Issues Posed by A World Patent System*, Journal of International Economic Law 2004, Volume 7, Issue 2, p. 341–357.

<sup>153</sup> See, e.g., Paradise, p. 11.

IPRs are subject to certain procedures and formalities, such as registration. These formalities often serve certain public policy purposes.<sup>154</sup> Article 62 safeguards Members' sovereignty to apply such measures, but at the same time makes sure that they do not prevent the effective protection of IPRs and respect certain due process standards.

The Members' right recognized in Article 62.1 to provide for certain acquisition and maintenance procedures does not cover all IPRs contained in TRIPS. It only applies to Sections 2 through 6 of Part II, thus excluding the areas of copyright and related rights and the protection of undisclosed information. This is so because in these two areas, protection does not require any registration.<sup>155</sup>

According to Article 62.1, the procedures and formalities that a Member may require for the acquisition and the maintenance of IPRs have to be reasonable. TRIPS does not provide for a definition of what is "reasonable". Thus, Members enjoy some flexibility as to the implementation of this requirement. In general terms, "reasonable" may be interpreted as letting Members impose formalities that are adequate to their purpose, but on the other hand not overly restrictive on the applicant. In other words, there should be a balance between the operation of the formalities, on the one hand, and the availability of IPRs, on the other. Such availability of rights may only be restricted to the extent permitted by the substantive rules of TRIPS, as made clear by the second sentence of this paragraph (which requires procedures and formalities to be consistent with the provisions of TRIPS). But since these substantive rules contain only minimum standards, and are themselves subject to exception clauses, there appears to be some room for Members to interpret the term "reasonable" according to their domestic policy objectives.

### 3.22.2 Article 62.2

2. Where the acquisition of an intellectual property right is subject to the right being granted or registered, Members shall ensure that the procedures for grant or registration, subject to compliance with the substantive conditions for acquisition of the right, permit the granting or registration of the right within a reasonable period of time so as to avoid unwarranted curtailment of the period of protection.

Article 62.2 seeks to prevent overly long examination or registration procedures. The significance of this rule may be illustrated by means of Article 33: the term of patent protection (at least 20 years) is to be counted from the date of filing. This means that the time needed for examination as to whether a patent may be granted will be deducted from the effective term of protection, to the detriment of

<sup>154</sup> For example, the registration of IPRs serves the purposes of transparency and legal certainty: third parties may easily verify whether a product is protected by an IPR and who the owner of this right is.

<sup>155</sup> As far as copyright is concerned, Article 5(2) of the Berne Convention actually prohibits to subject its enjoyment and its exercise to any formality. As to undisclosed information, registration would defeat the objective of keeping such information secret.



### 3. Possible interpretations

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the right holder. In order to prevent an “unwarranted curtailment” of the period of protection, the present provision obligates Members to permit the granting or registration of a right within a reasonable period of time. Again, there is no definition of “reasonable”, and the above considerations (see Article 62.1) equally apply in the context of this paragraph. In particular, this provision should not discourage patent offices from carrying out thorough examinations of patent applications. If a Member considers that in the pursuit of certain policy objectives, a detailed and time-consuming granting procedure is required, the amount of time taken would seem reasonable as long as any shorter time frame would not suffice for the realization of the respective policy objective.<sup>156</sup>

#### 3.22.3 Article 62.3

3. Article 4 of the Paris Convention (1967) shall apply *mutatis mutandis* to service marks.

Article 4 of the Paris Convention concerns the right of priority, which plays a decisive role in the acquisition of patents, trademarks, industrial designs, utility models and inventors’ certificates.<sup>157</sup> The purpose of Article 62.3 is to bring service marks into the realm of trademark law. This provision complements Article 16.2 and 3, which extend the application of typical trademark rules (i.e., on well-known marks) to service marks. Article 62.3 does the same, with respect to another typical trademark rule (i.e., the right of priority). The reason for this extension is that prior to TRIPS, Parties to the Paris Convention were not obliged to protect service marks through trademark law. Instead, they could opt for other means of protection outside the IPR system, such as rules on unfair competition.<sup>158</sup>

The right of priority is particular to trademark law (and the other industrial property rights under the Paris Convention). It has nothing to do with the non-IPR means of protection of service marks admitted under the Paris Convention. By subjecting service marks to the right of priority, Article 62.3 accords service marks specific trademark protection and takes them out of the realm of non-IPR means of protection.

<sup>156</sup> For instance, in order to keep pharmaceuticals at affordable prices, developing country patent offices should subject patent applications to a detailed patentability examination before granting the patent. According to a report by Médecins Sans Frontières (MSF, *Drug patents under the spotlight. Sharing practical knowledge about pharmaceutical patents*. Geneva, May 2003, p. 17/18) a number of national patent offices (including in developed countries) do not examine each application in depth, but merely check that the right papers have been filed and that the fees have been paid. Such practice is favourable to patent applicants, but it defeats the public policy purpose of access to affordable medicines. A longer time frame for a more detailed examination would therefore not constitute an unreasonable period of time in the sense of Article 62.2.

<sup>157</sup> See Chapter 17.

<sup>158</sup> See Article 6*sexies*, Paris Convention, which leaves Parties the freedom not to register service marks as trademarks. For a detailed discussion of Article 16 and the relevant provisions of the Paris Convention, see Chapter 14.

**3.22.4 Article 62.4**

4. Procedures concerning the acquisition or maintenance of intellectual property rights and, where a Member's law provides for such procedures, administrative revocation and *inter partes* procedures such as opposition, revocation and cancellation, shall be governed by the general principles set out in paragraphs 2 and 3 of Article 41.

This provision refers to some of the key rules governing Part III of TRIPS on enforcement. Thus, the obligations of Members to provide for fair and equitable procedures (Article 41.2) and for reasoned decisions (Article 41.3) are made applicable in the context of acquisition and maintenance procedures.<sup>159</sup> Depending on the domestic law of the respective Member, the same obligations apply also to administrative revocation and *inter partes* procedures. Administrative revocation procedures in this context concern the *ex officio* revocation of an intellectual property right. Such procedure involves only the administration and the right holder. *Inter partes* procedures, on the other hand, involve a third party, usually the one opposing the registration of an IPR or requesting the administration to revoke or cancel a granted right.

**3.22.5 Article 62.5**

5. Final administrative decisions in any of the procedures referred to under paragraph 4 shall be subject to review by a judicial or quasi-judicial authority. However, there shall be no obligation to provide an opportunity for such review of decisions in cases of unsuccessful opposition or administrative revocation, provided that the grounds for such procedures can be the subject of invalidation procedures.

Like Article 41.4 in the context of enforcement procedures, this provision obligates Members to provide for the possibility of reviewing final administrative decisions in any of the procedures referred to under paragraph 4.<sup>160</sup> Such availability of review is a basic civil right under the principle of the rule of law.<sup>161</sup> The second sentence contains a conditioned exception to this obligation. "Unsuccessful opposition" refers to an *inter partes* procedure, where a third party has unsuccessfully attempted to prevent the granting of a right by the administration. "Administrative revocation" is a procedure involving only the right holder and an administrative authority (usually identical with the one responsible for the original grant of a

<sup>159</sup> For details on Article 41.2 and 3, see above, in this Section.

<sup>160</sup> Note that under Article 41.4, the authority carrying out the review has to be a *judicial* authority. Article 62.5 is wider in this respect, allowing also the review by *quasi-judicial* authorities (i.e., not a judge but usually an administrative body independent of the body granting the right in the first place).

<sup>161</sup> The idea is that every citizen may challenge before the courts any administrative acts that possibly affect unfavourably his/her rights.

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right). The case of an unsuccessful revocation under Article 62.5 refers to the situation where the administrative authority first considers revocation of a right, but eventually decides not to do so.

In the case of an unsuccessful opposition, there is no need for the separate review of the administrative rejection of the opposition, provided that under domestic law, the unsuccessful third party may challenge invalidation procedures before a court the grounds used in the administrative rejection. This means that the party opposing the grant of a given IPR is expected to tolerate the establishment of such right (instead of preventing this in the first place through successful opposition), but will subsequently have a chance to challenge the right in invalidation proceedings. In such proceedings, the judge will examine whether the grounds for rejection used by the administration were justified. The same rule applies when administrative revocation procedures are unsuccessful. Any third party may later initiate invalidation procedures on the same grounds as invoked by the administrative authority. Thus, the fact that the administrative authority rejected the revocation of the right does not preclude third parties from challenging the same right before a court.

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##### 4.1 Havana Club

On 2 January 2002, the Appellate Body issued its report on the *Havana Club* case,<sup>162</sup> a complaint by the EC with respect to Section 211 of the U.S. Omnibus Appropriations Act of 1998.<sup>163</sup> In this complaint, the EC had alleged several inconsistencies of U.S. Section 211 with TRIPS and the Paris Convention.<sup>164</sup>

U.S. Section 211 has the objective of protecting trademarks, trade names and commercial names that are “the same or substantially similar to a mark, trade name, or commercial name that was used in connection with a business or assets” confiscated by the Cuban government on or after 1 January 1959.<sup>165</sup> Section 211 is intended to prevent unauthorized third parties from benefiting from this confiscation by using an affected trademark, trade name or commercial name. For this purpose, Section 211 makes the registration of such trademark, trade name or

<sup>162</sup> *United States – Section 211 Omnibus Appropriations Act of 1998* – WTO document WT/DS176/AB/R. This report as well as the panel report (WT/DS176/R of 6 August 2001) were adopted by the WTO Dispute Settlement Body (DSB) on 1 February 2002. The texts of both reports are available at <<http://www.wto.org>>.

<sup>163</sup> Section 211 of the Department of Commerce Appropriations Act, 1999, as included in the Omnibus Consolidated and Emergency Supplemental Appropriations Act 1999, Public Law 105–277, 112 Stat. 2681, which became law in the USA on 21 October 1998 [referred to hereinafter as “Section 211”]. The relevant parts of Section 211 are quoted in paragraph 3 of the Appellate Body report.

<sup>164</sup> The following analysis is limited to those parts of the Appellate Body report dealing with the TRIPS obligations on enforcement procedures. The Appellate Body also examined the compatibility of Section 211 with the general TRIPS obligations of National Treatment and Most-Favoured-Nation Treatment as well as with certain trademark provisions of the TRIPS Agreement and the Paris Convention. For an analysis of those parts of the report dealing with trademark law, see Chapter 14.

<sup>165</sup> See Section 211(a)(1).

commercial name dependent on the express consent of the original owner<sup>166</sup> of the mark, trade name or commercial name, or of the *bona fide* successor-in-interest.<sup>167</sup>

Section 211 further provides that:

"[a] (2) No U.S. court shall recognize, enforce or otherwise validate any assertion of rights by a designated national based on common law rights or registration [...] of such a confiscated mark, trade name, or commercial name.

(b) No U.S. court shall recognize, enforce or otherwise validate any assertion of treaty rights by a designated national or its successor-in-interest [...] for a mark, trade name, or commercial name that is the same as or substantially similar to a mark, trade name, or commercial name that was used in connection with a business or assets that were confiscated unless the original owner of such mark, trade name, or commercial name, or the *bona fide* successor-in-interest has expressly consented."

The EC contended that these provisions were inconsistent with Article 42 TRIPS, because they "expressly deny [...] the availability of [U.S.] courts to enforce the rights targeted" by Section 211.<sup>168</sup>

The panel followed the EC's argumentation and considered Section 211(a)(2) to be inconsistent with Article 42. According to the panel, this provision effectively prevents a right holder "from having a chance to substantiate its claim", which would contradict Article 42:

"effective civil judicial procedures mean procedures with the possibility of an outcome which is not pre-empted *a priori* by legislation."<sup>169</sup> (footnote omitted)

The Appellate Body did not disagree on this interpretation of Article 42. However, it reversed the panel's finding, based on a different assessment of the legal situation in the USA.<sup>170</sup>

As to the term "right holders" in Article 42 (first sentence), the AB agreed with the interpretation of the Panel, confirming that the beneficiaries of this provision are not only parties who have been established as owners of trademarks, but equally parties who claim to have legal standing to assert rights. In other terms, a presumptive owner is to be treated as a "right holder":

"Consequently, in our interpretation, this presumptive owner must have access to civil judicial procedures that are effective in terms of bringing about the

<sup>166</sup> I.e., the owner of the *Cuban* trademark used in connection with confiscated assets.

<sup>167</sup> See Section 211(a)(1), providing that in such cases, the payment of registration fees by the applicant shall not be accepted, unless there is such an express consent. Without payment, however, registration will not be effectuated. Thus, the failure by the applicant to prove the original owner's (or his *bona fide* successor's-in-interest) *express consent* to the registration will practically result in the denial of trademark registration.

<sup>168</sup> See the report of the panel, at paragraphs 4.91 and 4.147.

<sup>169</sup> Ibid., paragraph 8.100, as quoted in paragraph 210 of the report of the Appellate Body. The panel rejected the EC's claim with respect to Section 211(b), due to the EC's failure to substantiate its claim (paragraph 8.162 of the panel report).

<sup>170</sup> According to the Appellate Body, Section 211 is not a provision that pre-empts *a priori* the possibility for a party to enforce its rights. See paragraphs 227 and 229 of the report.

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enforcement of its rights until the moment that there is a determination by the court that it is, in fact, not the owner of the trademark that it has registered [...]”<sup>171</sup>

In other words, a party may benefit from the procedural rights under Article 42 as long as, according to the applicable national law, it cannot be excluded that such party is the right holder.<sup>172</sup> In support of this interpretation, the AB referred to the term employed under Article 42 (“right holders”) in comparison with the term “owner” in Article 16.1, arguing that where TRIPS limits rights exclusively to the “owner”, it does so in express terms.<sup>173</sup> In addition to that, the AB draws on the fact that the fourth sentence of Article 42 refers to “parties” (plural) and not to “party” (singular), thus including not only the true right holder, but equally the party that will eventually be determined to have no right in the respective IPR.<sup>174</sup>

However, the Appellate Body stressed that Article 42 is of procedural character,<sup>175</sup> thus leaving the determination of who is the owner of a right to the domestic substantive intellectual property laws.<sup>176</sup> The AB went on to state that Section 211 constitutes a substantive provision on the determination of ownership.<sup>177</sup> The EC conceded that, despite Section 211, persons seeking to register a trademark did have access to judicial procedures, based on other U.S. laws (i.e., the pertinent procedural provisions of the Lanham Act and the U.S. Federal Rules of Civil Procedure).

The crucial point of controversy was that once a party has been given the opportunity to substantiate its claims under the latter provisions, and the court finds that ownership has to be denied on the substantive grounds under Section 211, Section 211 obligates U.S. courts to abstain from the examination of any further substantive conditions that may be required for the recognition of an intellectual property right.<sup>178</sup>

According to the EC, the decision whether to examine any other of such cumulative substantive conditions has to be left to the discretion of the courts. The EC expressed the view that Article 42 is violated if domestic law prevents a plaintiff from pursuing all issues or claims that arise and from presenting all relevant evidence in this context.<sup>179</sup>

<sup>171</sup> See paragraph 8.99 of the report of the panel, as endorsed by the Appellate Body in paragraph 218 of its report.

<sup>172</sup> The Appellate Body and the panel focussed on the “owner” of the trademark. As observed above (Section 3 on Article 42), the term “right holder” is not limited to ownership, but may include other parties authorized to make use of an intellectual property right (depending on domestic law).

<sup>173</sup> See paragraph 217 of the report of the Appellate Body.

<sup>174</sup> Ibid.

<sup>175</sup> See paragraph 221 of the report.

<sup>176</sup> Ibid, paragraph 222.

<sup>177</sup> Ibid.

<sup>178</sup> Apart from the question of ownership, other substantive requirements that are typically relevant in trademark law include issues such as use of the trademark; alleged deficiency of a registration; identity or similarity of signs in general; class of goods or services covered by the trademark; existence and scope of a licence. See paragraph 213 of the Appellate Body report, footnote 148.

<sup>179</sup> See paragraph 213 of the report of the Appellate Body.

The AB disagreed on this interpretation. Stating the procedural character of Article 42, it held that:

“In our view, a conclusion by a court on the basis of Section 211, after applying the Federal Rules of Civil Procedure and the Federal Rules of Evidence, that an enforcement proceeding has failed to establish ownership – a requirement of substantive law – with the result that it is impossible for the court to rule in favour of that claimant’s or that defendant’s claim to a trademark right, does not constitute a violation of Article 42. There is nothing in the *procedural* obligations of Article 42 that prevents a Member, in such a situation, from legislating whether or not its courts must examine each and every requirement of substantive law at issue before making a ruling. (emphasis in the original)

With this in mind, we turn to the alleged inconsistency of Section 211(a)(2) with Article 42. Section 211(a)(2) does not prohibit courts from giving right holders access to fair and equitable civil judicial procedures and the opportunity to substantiate their claims and to present all relevant evidence. Rather, Section 211(a)(2) only requires the United States courts not recognize, enforce or otherwise validate any assertion of rights by designated nationals or successors-in-interest who have been determined, after applying United States Federal Rules of Civil Procedure and Federal Rules of Evidence, not to own the trademarks referred to in Section 211(a)(2). As we have said, Section 211(a)(2) deals with the substance of ownership. Therefore, we do not believe that Section 211(a)(2) denies the procedural rights that are guaranteed by Article 42.”<sup>180</sup>

To summarize, Article 42 is of procedural character, which leaves Members the discretion to determine their concept of right holders and ownership. Article 42 does not require Members to provide in their national rules on civil procedure an obligation of courts to examine each of several cumulative substantive criteria for the recognition of an intellectual property right, if one of those criteria is definitely not met.

#### 4.2 Complaints United States v. Sweden and Unites States v. Argentina

Complaints submitted by the USA under the WTO Dispute Settlement Understanding in relation to provisional measures were settled during consultations. This was the case of a complaint against Sweden (WT/DS86/1, 2 June 1997)<sup>181</sup> and another one against Argentina (WT/DS196, 30 May 2000).<sup>182</sup>

<sup>180</sup> See paragraphs 226, 227 of the report. On the same grounds, the Appellate Body then also denied an inconsistency of Section 211(b) with Article 42 TRIPS (paragraph 229).

<sup>181</sup> The USA, the EC and Sweden notified an agreed solution to the DSB, based on the approval by the Swedish Parliament of an amendment to several intellectual property laws authorizing the judicial authorities to grant provisional measures, including *ex parte* in cases of risk of destruction or disappearance of materials and documents (WT/DS86/2, December 11, 1998). The amendment entered into force on January 1, 1999.

<sup>182</sup> As an outcome of the consultations, the government of Argentina agreed to propose an amendment to Article 83 of the patent law so as to incorporate the following provision on preliminary measures: “The judicial authorities shall have the authority to order provisional measures in relation to a patent granted in conformity with Articles 30, 31 and 32 of the Law, in order to:

- 1) prevent an infringement of the patent and, in particular, to prevent the entry into channels of commerce of goods, including imported goods, immediately after customs clearance;
- 2) preserve relevant evidence in regard to the alleged infringement,

## 5. Relationship with other instruments

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### 4.3 EC – Protection of Trademarks and GIs

Following separate requests by Australia<sup>183</sup> and the USA,<sup>184</sup> the WTO Dispute Settlement Body (DSB) at its meeting on 2 October 2003 established a single panel<sup>185</sup> to examine complaints with respect to EC Council Regulation (EEC) No. 2081/92 of 14 July 1992<sup>186</sup> on the protection of geographical indications and designations of origin for agricultural products and foodstuffs. The complaints are based, *inter alia*, on alleged violations of Articles 41.1, 41.2 (general obligations on fair and equitable IPR enforcement procedures), 41.4 (review of final administrative decisions), 42 (fair and equitable IPR enforcement procedures), and 44.1 (injunctions).<sup>187</sup> The complainants contend that the above EC Regulation does not provide adequate enforcement procedures.<sup>188</sup>

## 5. Relationship with other instruments

### 5.1 WTO Agreements

### 5.2 Other international instruments

The introduction of a detailed set of enforcement rules as part of TRIPS has been, as mentioned, one of the major innovations of this Agreement. Earlier conventions only contain a few provisions relating to enforcement. For instance, the Paris Convention includes Article 9 (seizure upon importation of goods bearing infringing trademarks and trade names), Article 10 (false designation of source

whenever the following conditions are met:

a) there is a reasonable likelihood that the patent, if challenged by the defendant as being invalid, shall be declared valid; b) it is summarily proven that any delay in granting such measures will cause an irreparable harm to the patent holder; c) the harm that may be caused to the title holder exceeds the harm that the alleged infringer will suffer in case the measure was wrongly granted; d) there is a reasonable likelihood that the patent is infringed. Provided that the above conditions are met, in exceptional cases such as when there is a demonstrable risk of evidence being destroyed, the judicial authorities can grant such measures *inaudita altera parte*.

In all cases, before granting a provisional measure, the judicial authority shall request that an expert appointed *ex officio* examine items a) and d) above within a maximum period of 15 days.

In the case of granting of any of the measures provided for under this article, the judicial authorities shall order the applicant to provide a security or equivalent assurance sufficient to protect the defendant and to prevent abuses”.

<sup>183</sup> WT/DS290/18 of 19 August 2003.

<sup>184</sup> WT/DS174/20 of 19 August 2003.

<sup>185</sup> *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs* [hereinafter *EC – Protection of Trademarks and GIs*], WT/DS174/21 and WT/DS290/19 of 24 February 2004, Constitution of the Panel Established at the Requests of the United States and Australia.

<sup>186</sup> See above, Section 2.1.

<sup>187</sup> See the above requests by Australia and the USA for the establishment of a panel. The alleged violation of Article 44.1 was invoked solely by the USA, whereas Australia referred more generally to Articles “41 and/or 42” of the TRIPS Agreement. Note that the same complaint was also based on other TRIPS provisions, in particular those relating to the national treatment and most-favoured nation treatment obligations and to the protection of trademarks and geographical indications. See Chapters 4, 14 and 15.

<sup>188</sup> See the U.S. request for the establishment of a panel, p. 1. Australia in its request (p. 1) merely referred to the asserted diminished legal protection for trademarks as being contrary, *inter alia*, to Articles 41 and/or 42, TRIPS Agreement.

or geographic origin), Article 10*bis* (protection against unfair competition), and Article 10*ter* (general requirement for “appropriate legal remedies effectively to repress” acts prohibited under Articles 9, 10, and 10*bis*).

The Berne Convention also contains some provisions on enforcement (Articles 13(3) and 15), while they are absent in other important treaties such as the Rome Convention, the Geneva Phonograms Convention, the Universal Copyright Protection and the Washington Treaty.<sup>189</sup>

## 6. New developments

### 6.1 National laws

As mentioned, Part III of TRIPS is not intended to harmonize national enforcement rules, but to ensure a minimum level of effectiveness of IPRs, subject to the legal methods and practices applied in each Member. Given that the provisions in this section are oriented to results and do not provide detailed obligations, most of the provisions in Part III are likely to be deemed as non self-executing even in countries where the direct application of international treaties is admitted under constitutional law.

The need to implement legislation to make the provisions in Part III operational is unambiguously suggested by the wording of those provisions that are addressed explicitly to the Members (Members “shall ensure,” “shall make available,” or “shall provide for”; “judicial authorities” or “competent authorities” “shall have the authority” to order certain measures pursuant to Article 43.1; Article 44.1, first sentence; Article 45; Article 46; Article 48.1; Article 50.1–3 and 7; Article 53.1; Article 56; Art 57, second sentence; Article 59).

In some jurisdictions (e.g., Germany) Part III provisions have been deemed not directly applicable,<sup>190</sup> while elsewhere some courts (e.g., in Argentina) have admitted the direct application of some of such provisions, such as Article 50 on provisional measures.<sup>191</sup>

In many countries adaptation of national laws to Part III was not deemed necessary. In the USA, for instance, it was considered that no amendment to national law was required to comply with TRIPS in this area,<sup>192</sup> thereby suggesting that the USA, one of the main proponents of enforcement rules during the Uruguay Round, was able to obtain the adoption of rules essentially inspired by and consistent with its own legal system.

Issues of compatibility between national enforcement provisions and TRIPS have arisen, for instance, in the context of the European Community. The

<sup>189</sup> See, e.g., Dreier, p. 250–251.

<sup>190</sup> *Idem*, p. 270.

<sup>191</sup> See, e.g., Correa, *Medidas cautelares*, at. 93.

<sup>192</sup> See e.g., *Nimmer on Copyright*, Sec. 18.06 (b) (2), No. 17. The U.S. “Uruguay Agreements Act” (1994), which amended various aspects of U.S. law to comply with obligations emanating from the Uruguay Round Final Act, only include amendments in relation to substantive rules applicable to certain areas of copyright, trademarks geographical indications, and patent (Public law 103–465, December 8, 1994).



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European Court of Justice (ECJ) was required to judge whether provisional measures (“*kort geding*”) as provided for by the Dutch law (Article 289 of the Code of Civil Procedures) were compatible with Article 50.6 of the Agreement. The compatibility of national provisions was upheld in this case.<sup>193</sup>

However, in other Members, particularly developing countries, national laws have been more or less extensively amended in order to conform to the new regulatory framework, often directly importing the language from particular provisions of the Agreement.<sup>194</sup>

The examination of the TRIPS-consistency of the national provisions on enforcement is normally a significant chapter in the review of national laws conducted by the Council for TRIPS in discharging its duty to monitor the operation of TRIPS and, in particular, of Members’ compliance with their obligations thereunder (Article 68). However, no systematic review of changes introduced in national laws in order to conform to Part III is so far available.

### 6.2 International instruments

#### 6.3 Regional and bilateral contexts

##### 6.3.1 Regional

Enforcement obligations on IPRs have been included in several regional trade agreements that deal with intellectual property, such as the North American Free Trade Agreement (NAFTA)<sup>195</sup> and the Agreement of the Group of Three,<sup>196</sup> which include provisions substantially similar to those in Part III of TRIPS. Proposals for enforcement rules have also been made in the negotiation of a Free Trade Area for the Americas.

A detailed chapter on enforcement rules, clearly inspired by Part III of TRIPS, is also incorporated into Decision 486 of the Andean Community. The Decision allows member states, in some cases,<sup>197</sup> to apply levels of protection higher than those established by the Decision and TRIPS.

##### 6.3.2 Bilateral

Many bilateral agreements signed by the USA,<sup>198</sup> including free trade agreements, contain provisions on IPR enforcement, which generally establish TRIPS-plus

<sup>193</sup> See *Hermes v. FHT*, ECJ, 16 June 1998, case C 53/96.

<sup>194</sup> See, e.g., Decision 486 of the Andean Community Common Regime on Industrial Property.

<sup>195</sup> In fact, NAFTA obliged Mexico to provide for remedies that already existed in the USA. Some have characterized these provisions as an “Americanization” of Mexican law. See R. Neff and F. Smallson, *NAFTA: Protecting and enforcing intellectual property rights in North America*, Shepard’s/McGraw-Hill, 1994, p. 127.

<sup>196</sup> Established by Colombia, Mexico and Venezuela. In contrast, the ASEAN Free Trade Area (AFTA) does not include intellectual property provisions.

<sup>197</sup> Such as the *ex officio* granting of provisional and border measures (Articles 246 and 250).

<sup>198</sup> See, e.g., the USA-China Agreement on Protection of Intellectual Property, February 26, 1995.

standards. The USA-Jordan Free Trade Agreement (FTA) signed in 2002,<sup>199</sup> for instance, obliges the parties to comply with the following:

- Article 24 makes payment of lost profits mandatory, and provides that the retail price of the legitimate product be considered to calculate damages.
- Article 25 does not establish the level of fines to be applied, but obliges each Party to “ensure that its statutory maximum fines are sufficiently high to deter future acts of infringement with a policy of removing the monetary incentive to the infringer”, and also requires that the judicial and other competent authorities have the authority “to order the seizure of all suspected pirated copyright and counterfeit trademark goods and related implements the predominant use of which has been in the commission of the offence, and documentary evidence”.
- Each Party shall provide, at least in cases of copyright piracy or trademark counterfeiting, that its authorities may initiate criminal actions and border measure actions *ex officio*, without the need for a formal complaint by a private party or right holder (Article 26).
- Article 16 stipulates presumptions (not provided for under TRIPS) for civil cases involving copyright or related rights. Each Party shall provide that the natural person or legal entity whose name is indicated as the author, producer, performer or publisher of the work, performance or phonogram in the usual manner shall, in the absence of proof to the contrary, be presumed to be the designated right holder in such work, performance or phonogram. It shall be presumed, in the absence of proof to the contrary, that the copyright or related right subsists in such subject matter. Moreover, such presumptions shall also apply in criminal cases until the defendant comes forward with credible evidence putting in issue the ownership or subsistence of the copyright or related right.
- Finally, the Agreement expands the concept of copyright piracy “on a commercial scale” to encompass cases of “significant wilful infringements that have no direct or indirect motivation of financial gain” (Article 28).

The USA-Singapore Trade Agreement has gone much farther than the TRIPS approach. It includes detailed provisions which significantly expand the obligations existing under Part III of TRIPS:<sup>200</sup>

- Article 1609.3 requires both Parties to publicize their enforcement efforts including making available enforcement statistics that a country might keep.
- Article 1609.4 provides that decisions by a country on how to distribute enforcement resources among different areas, including intellectual property enforcement does not excuse a country from meeting its “deterrence” and related obligations under the agreement.

<sup>199</sup> See also the USA-Vietnam Trade Agreement, July 13, 2000.

<sup>200</sup> The following summary is substantially based on *The U.S.-Singapore Free Trade Agreement (FTA) The Intellectual Property Provisions*, Report of the Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters (IFAC-3), Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Singapore Free Trade Agreement Prepared By the Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters (IFAC-3), February 28, 2003, p. 14–15 [hereinafter *USA-Singapore Free Trade Agreement*].

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- Article 1609.6 includes detailed presumptions that must be implemented in national law concerning the subsistence and ownership of copyright in all protected subject matter. A side letter to the agreement spells out in detail how these presumptions will operate in practice in Singapore.
- Article 1609.8 also introduces a TRIPS-plus standard for civil damages, at least in the area of copyright piracy and trademark counterfeiting. Such damages must compensate the right holder for the damages suffered, including payment to the right holder of the profits realized by the party that has infringed the right. The Agreement also requires the judicial authorities to consider the suggested retail price of the legitimate product being infringed upon as a measure of the loss to the right holder.
- Article 1609.9 makes it mandatory to provide for statutory (or “pre-established”) damages at least with respect to copyright piracy and trademark counterfeiting.
- Articles 1609.10–13 elaborate on and make mandatory many discretionary remedies from TRIPS including: payment of reasonable attorney’s fees to the prevailing party; the authority of judicial authorities to order the seizure of all suspected infringing goods, implements, other materials and documents used in the commission of the infringement; the destruction of infringing goods, except in exceptional circumstances; the destruction of implements used in the commission of an infringement even if the predominant use may have been for legitimate purposes; that the removal of a trademark from infringing goods will never be sufficient to permit their release back into commerce; and that the courts shall have the authority to order the infringer to identify accomplices, suppliers and other third parties involved in the infringement, at the risk of fines or imprisonment for failure to do so.
- Article 1609.14 requires that *ex parte* provisional relief in civil cases be issued “expeditiously.”
- Article 1609.15 provides that any security required of the plaintiff shall be “reasonable” and not “deter” recourse to these procedures, and adds that, if expert witnesses are required by the court and must be paid for by the right holder, the charges be related to the work performed and not deter recourse to such relief.
- Article 1609.18 requires that the competent authorities have the power to order infringers to provide the right holder with information regarding the consignee, consignor and importer of infringing goods.
- Article 1609.19 requires Parties to provide for enforcement at the border without any formal complaint filing requirements, that the competent authorities shall have the authority to initiate actions *ex officio* relating to suspect shipments being imported, exported or consigned to a local party. It also allows for enforcement actions against trans-shipped infringing goods that are not consigned to a local party.
- Article 1609.20 mandates that counterfeit and pirated goods shall be destroyed except in exceptional circumstances. The simple removal of unlawfully affixed trademarks shall not be sufficient to permit release into channels of commerce and in no event shall authorities permit export of counterfeit or pirated goods.

- Article 1609.21(a) expands the concept of “on a commercial scale” to include infringing acts without a profit-motive or commercial purpose but which cause damage “on a commercial scale”.
- Article 1609.21(b) includes an “encouragement” that deterrent fines be imposed in the case of trademark counterfeit and copyright piracy. The Agreement requires the two governments to have a “policy to remove the monetary incentive to the infringer.”
- Article 1609.21(c) authorizes seizure by authorities not only of products named in a search order but also of all products within the “general categories” indicated in such order.
- Article 1609.21(d) expands on TRIPS and requires destruction of counterfeit and pirated goods, except in exceptional cases, and with respect to copyright piracy, any implements or other materials used in accomplishing the infringement.
- Article 1609.21(e)(i) requires criminal authorities to act *ex officio* against piracy and counterfeiting.
- Article 1609.21(e)(ii) provides that the “fiat” prosecution system applied in Singapore shall not be the “primary means” to ensure effective enforcement. A side letter to the agreement outlines changes in that system.

A similar approach to the agreement with Singapore is the one followed in the bilateral free trade agreement between the USA and Chile, which entered into force on 1 January 2004.<sup>201</sup>

#### 6.4 Proposals for review

No proposals for review of Part III have been submitted so far.

### 7. Comments, including economic and social implications

As described in this chapter, TRIPS places much emphasis on enforcement. However, Members are not required to put in place a judicial system for enforcing IPRs separate from that for the enforcement of law in general. Moreover, TRIPS creates no obligation to shift resources away from general law enforcement toward the enforcement of IPRs. Nonetheless, resource-poor countries may face a difficult dilemma when determining how to allocate their scarce resources.<sup>202</sup>

The economic value of IPRs strongly depends on the ability to effectively enforce them, and on the costs associated with the applicable procedures, whether

<sup>201</sup> The enforcement provisions of the FTA between Chile and the USA follow the same structure as the TRIPS Agreement. Accordingly, the FTA contains provisions dealing with General Obligations; Civil and Administrative Procedures; Provisional Measures; Border Measures; and Criminal Procedures. For the USA, probably the most important achievement in this area was to make mandatory many of the discretionary remedies included under TRIPS. The important novelty of the FTA, as far as TRIPS and the WIPO Internet Treaties are concerned, is that it provides for “Limitations on Liability of Internet Service Providers”. See Article 17.12.23 of the Chile – USA FTA. See also Roffe, 2004.

<sup>202</sup> For a discussion on challenges for developing countries in the national enforcement and administration of TRIPS standards, see UNCTAD-ICTSD, *Intellectual Property Rights: Implications for Development*, Policy Discussion Paper Geneva, 2003.

## 7. Comments, including economic and social implications

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administrative or judicial. Enforcement rules are crucial for companies highly dependent on intellectual property rights, both in developed and developing countries.<sup>203</sup>

Copyright piracy and trademark counterfeiting emerged as a key concern in the Uruguay Round negotiations, but it was not a new phenomenon. Copyright piracy was already common in the 19th century, including in the USA, where weakened protection was offered to foreigners.<sup>204</sup> As strong copyright-based industries (such as the software, music industry and the motion picture industry) developed in the USA and became more vulnerable to piracy, the U.S. government turned into an active proponent of international enforcement rules.

Global trademark counterfeiting has been fostered in the last 20 years by advances in technology and the globalization of the economy. Though originally ignored because of the poor quality of copies, trademark counterfeiting increased dramatically since the late 1960s, and became a major concern for trademark-based industries. The U.S. industry, for instance, has claimed, and continues to do so despite the adoption of TRIPS, billions of dollars in losses<sup>205</sup> due to counterfeiting and other infringements of the rights provided in TRIPS, particularly due to the continued development of new technologies, such as the Internet, and the accompanying greater ease with which piracy and counterfeiting can be accomplished.<sup>206</sup>

The economics of litigation shapes the effective scope of IPR protection. Rights that title holders are unable to defend are worthless.<sup>207</sup> Though enforcement measures are, in principle, available to all IPRs holders, high litigation costs, as noted above, may constitute a deterrent to their effective use by individual right holders and small and medium enterprises (SMEs). For this reason, patents have been found of little relevance to the majority of SMEs as a means of appropriation of returns on innovation.<sup>208</sup>

It is also important to note that, like in other areas of TRIPS, a balanced approach is necessary in the application of Part III. While enforcement rules should ensure the protection of the legitimate interests of right holders, they should also protect against possible abuses. Patent suits, in particular, may be misused to

<sup>203</sup> In the United States, for instance, anywhere from 5 to 15% of all videos rented are counterfeit. See Paradise, p. 135.

<sup>204</sup> "[T]he early Americans were notorious for pirating English literary works. New York City became the piracy centre of the world. The English were powerless, because under the U.S. Copyright Act of 1790 only American nationals were afforded copyright protection. Book piracy produced revenue and culture for the early Americans. The works of Charles Dickens were freely pirated" (Paradise, p. 131). See also Doron S. Ben-Atar, *Trade Secrets: Intellectual Piracy and the Origins of American Industrial Power*, Yale University Press, New Haven & London 2004; B. Zorina Khan, *Does Copyright Piracy Pay? The Effects of US International Copyright Laws on the Market for Books, 1790–1920*, National Bureau of Economic Research Working Paper W10271, 2004.

<sup>205</sup> See Pury Tang, *The social and economic effects of counterfeiting*, IPI, London 2001.

<sup>206</sup> See, e.g., *The USA-Singapore Free Trade Agreement*.

<sup>207</sup> See, e.g., Barton, 1995, p. 163.

<sup>208</sup> See, e.g., Carlos Correa, *Do small and medium enterprises benefit from patent protection?*, in Carlo Pietrobello and Árni Sverrisson (eds.), *Linking Local and Global Economies. Organisation, Technology and Export Opportunities for SMEs*, Routledge, London and New York 2003.

impede legitimate competition.<sup>209</sup> The weak infrastructure available in patent granting offices to examine patent applications, and the low standards applied to assess inventive step, permit the grant of patents which are often found invalid when subject to a more rigorous scrutiny in courts. While in some developed countries the abusive use or misuse of patents may lead to antitrust sanctions,<sup>210</sup> in most developing countries there are no rules to control strategic or “sham”<sup>211</sup> litigation practices.

In sum, while implementing Part III Members should carefully balance all interests at stake, including the right holders’ interest in protecting his property against wilful infringement, the competitors’ legitimate right to freely use or build on knowledge in the public domain and, more broadly, the society’s interest in securing the functioning of efficient markets.

<sup>209</sup> For instance, a local company was sued in Chile in 1993 accused of infringement of a patent on a process for producing fluconazole (an important drug to treat certain types of meningitis, often associated to HIV infection). The title-holder obtained a preliminary injunction to ban the commercialization of the drug of the alleged infringer, which allowed the patent holder to effectively exclude competition for several years, during which the price of the corresponding medicine increased significantly. The case, however, was finally dismissed, since no infringement was found.

<sup>210</sup> See, for instance, the U.S. Supreme Court decision in *Walker Process Equipment Inc. vs. Food Machinery & Chemical Corp.* (1965) and subsequent case law on antitrust liability when there is an attempt to enforce invalid patents. See, e.g., Arun Chandra, *Antitrust liability for enforcing a fraudulent patent in the United States*, Patent World, April 1999. See also J. H. Reichmann, with C. Hasenzahl, *Nonvoluntary Licensing of Patented Inventions: The Law and Practice of the United States*, forthcoming at <<http://www.ictsd.org/iprsonline/unctadictsd/projectoutputs.htm#casestudies>>.

<sup>211</sup> The doctrine on “sham” litigation applies in the USA when a lawsuit is baseless and there is an intent to use it as a tool for monopolization.