

TRIPS Agreement: The Negotiating History of the TRIPS Agreement and Patent Exhaustion

Different aspects of IPRs are governed and administered by different international inter-governmental organisations (IGO) under the aegis of number of international treaties and multilateral agreements. The World Intellectual Property Organisation (WIPO) is the specialised organ of the United Nations (UN) to administer IPRs globally, however the United Nations Educational, Scientific and Cultural Organisation (UNESCO) also addresses certain issues of IPRs like Copyright.²⁹⁹ In today's context, amidst a broad array of multilateral agreements on IPRs, one important agreement is the TRIPS. With the signing of the GATT 1994 and establishment of the WTO, TRIPS Agreement became a founding pillar of the GATT 1994. GATT 1947 had nominally covered issues related to IPRs without any effectiveness and were taken up first as a matter of serious discussion only in the Tokyo Round of GATT Ministerial Conference in 1978.

The TRIPS Agreement does not introduce anything fundamentally and conceptually new as far as protection of IPRs is concerned since it is framed on existing international treaties on IPRs and encompasses them.³⁰⁰ *Article 2* of the TRIPS Agreement establishes the link with the previous international covenants. It states,

299 WIPO was earlier known by its French acronym 'Bureaux Internationaux Réunis pour la Protection de la Propriété Intellectuelle' (BIRPI) or as 'United International Bureau for the Protection of Intellectual Property'. It administers different international Treaties and Conventions in the area of patents. Under the auspices of the BIRPI and later WIPO (after its establishment in 1967), the 'Paris Convention' for Protection of Industrial Property signed in 1883 and updated in the later years, 'The Patent Co-operation Treaty' signed in 1970, 'The Strasbourg Convention on the International Classification of Patents' signed in 1971 and the 'Patent Law Treaty' of 2000 were signed. They provide the basic guidelines and rules for member countries to opt for and follow to enhance protection of IPR in the member countries.

300 Yusuf Abdulqawi, "TRIPS: Background, Principles and General Provisions", in Correa Carlos and Yusuf Abdulqawi (eds.), "Intellectual Property and International Trade – The TRIPS Agreement", Walters Kluwer 2nd Edition, pgs. 19, 20, 21 (3–21), 2008.

Intellectual Property Conventions

1. In respect of Parts 2, 3 and 4 of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).
2. Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.

Along with the GATT and General Agreement on Trade in Services (GATS), the TRIPS Agreement forms one of the pillars of the WTO-based multilateral system. In that it continues to follow the fundamental principles of non-discrimination through an elaborate and transparent regime of Most Favoured Nation (MFN) and National Treatment (NT) that existed in Paris and Rome Conventions.³⁰¹ However, deviating from the Paris Convention, which allows members to determine the subject matter of patents, the TRIPS Agreement elaborately defines patentable subject matter and also exceptions to patentability.³⁰² Further, a significant move from status-quo with the TRIPS Agreement coming into effect was its inclusion in WTO dispute settlement mechanism. The issue of counterfeit trademarked products along with copyright piracy as problems hindering multilateral trade, were widely discussed right from the Tokyo Ministerial Round. Through protruded negotiations, it took the shape of TRIPS at the Punta del Este round culminating elaborate enforcement mechanisms within the Agreement itself.³⁰³

The fundamental reason for introducing MFN and NT in the multilateral trading system under the WTO is to have equal conditions of competition to determine that like products are treated equally.³⁰⁴ The importance of this agreement lies in the fact that it established a uniform minimum standard

³⁰¹ Braga Carlos Primo, "Trade-related intellectual property issues: the Uruguay Round Agreement and its economic implications", in Maskus Keith (ed.), "The WTO, Intellectual Property Rights and the Knowledge Economy", Edward Elgar Publishing Ltd., pg. 6, (3–41), 2004.

³⁰² Kaur Annette, "Limitations and exceptions under the three-step test – how much room to walk the middle ground?" in Kur Annette and Levin Marianne (eds.), "Intellectual Property Rights in a Fair World Trade System", Edward Elgar Publishing Ltd., pgs. 220, 221 (208–261), 2011.

³⁰³ Cottier Thomas, "The Prospects for Intellectual Property in GATT", 28 Common Market Law Review, pg. 386, 387, (383–414), Kluwer Academic Publishers 1991.

³⁰⁴ Cottier Thomas & Schneider Lena, "The philosophy of non-discrimination in international trade regulation", in Sanders Anselm Kamperman edited, "The Principle of National Treatment in International Economic Law Trade, Investment and Intellectual Property" Edward Elgar Publishing Ltd., pg. 13 (3–33), 2014.

of protection of IPRs,³⁰⁵ as well as directly connected IPRs with multilateral trade. Thus, the TRIPS Agreement provides a harmonised bottom floor of protection of IPRs for all members while allowing the members to decide the upper level of protection they prefer to provide.

The other significance of the TRIPS Agreement is that while a multitude of different treaties on IPRs catered to the governance and administration of IPRs, the linking of them with trade is through the TRIPS Agreement and it brought IPRs within the realm of the dispute settlement mechanism of the WTO. The Understanding on Rules and Procedures of Governing the Settlement of Disputes in the WTO, commonly referred to as Dispute Settlement Understanding (DSU), covers the TRIPS.³⁰⁶ The mandatory surrender to the dispute resolution mechanism of the WTO with appeal provisions before the Appellate Body (AB) of the WTO, a permanent standing body, made the TRIPS unique in comparison with any of the other treaties on different IPRs.³⁰⁷

This completely changed the scenario since it was no longer just the industrialised nations that would need to provide effective protection of IPRs, but all members would need to have a common minimum threshold of protection (subject to certain transition time flexibility). This minimum threshold was much higher than that followed in the municipal laws of many GATT members at the time when TRIPS became part of the WTO system with the signing of GATT 1994. At the time TRIPS was signed, many of the member countries restricted patent protection only to processes and not products. Further, in many countries, protection was lower than 20 years and over 40 countries did not provide patent protection to pharmaceuticals.³⁰⁸ With the introduction of TRIPS that was all set to change.

The TRIPS Agreement did not replace the existing international covenants on IPRs that started evolving since late 19th century to address cross-border protection. The distinct drawback that was observed was these international conventions lacked effective rules on implementation and enforcement at the right-holders level. There was absolute dependency on national court system

305 Otten Adrian, "Implications of the TRIPS Agreement for Dispute Settlement in Industrial Property" in Cottier Thomas and Widmer Peter (eds.), "Strategic Issues of Industrial Property Management in a globalising Economy", Hart Publishing, pg. 103, 1999.

306 Nolf Markus, "The relevance of TRIPS for Patent Law", in "TRIPS, PCT and Global Patent Procurement", Kluwer Law International, pg. 29, 2001.

307 Land Molly, "Adjudicating TRIPS for development", in TRIPS and Developing Countries Towards a New IP World Order? Edward Elgar Publishing Ltd., pgs. 146, 147 (142–162), 2014.

308 Vivekanandan V. C., "The Indian Patent Matrix: issues in patent amendment 2005", in Bird Robert and Jain Subhash (eds.), "The Global Challenge of Intellectual Property Rights", Edward Elgar Publishing Ltd., pg. 137 (135–152), 2008.

for enforcement of the IPRS. There were efforts in addressing enforcement of IPRS through adjudication by the International Court of Justice (ICJ),

Since the 1967 Stockholm Revision, the Paris Convention contains a rule on dispute settlement (Art. 28), according to which, as first step, negotiations between the disputants should take place, and then, in the absence of a mutual agreement, the matter is to be brought before the International Court of Justice. This regulation is to be seen as a special, contractual submission to the jurisdiction of the International Court of Justice. It is applicable to all Union countries unless they have declared that they do not consider themselves bound (Art. 28.2)

However, even with such regulations, adjudication by the ICJ was not effective.³⁰⁹

The TRIPS Agreement stands unique from the other WTO Agreements by way of acknowledging individual rights.³¹⁰ Thus at one end it precludes discrimination between international trade³¹¹ and on the other it allows the members necessary flexibility to countries to interpret crucial substantive issues like '*novelty*', '*inventive step*', '*disclosure*', '*grace period*', while according individual rights. Interesting to note that while the rights are elaborated at great extent, the TRIPS Agreement does not mandate any specific mode of exhaustion even when exhaustion is covered in *Article 6* of the Agreement. Apparently, it allows the members to adopt any mode of exhaustion it prefers. This, although seems to provide flexibility to the members, only adds to the confusion and hinders seamless removal of barriers to multilateral trade.

6.1 Intellectual Property Rights under the GATT and the Negotiating History of TRIPS

One will note that the WTO Secretariat does not maintain any institutional record of the negotiating history of GATT 1994 as it evolved into WTO, a new

309 Stoll Peter-Tobias, Busche Jan and Arend Katrin, "WTO – Trade-Related Aspects of Intellectual Property Rights", Max Planck Institute for Comparative Public Law and International Law, Martinus Nijhoff Publishers, pgs. 2, 3, 4, 2009.

310 Haugen Hans Morten, "TRIPS and compatible protection", in "The right to food and the TRIPS Agreement", Martinus Nijhoff Publishers, Boston, pg. 216, (213–253), 2007.

311 McGinnis John & Movsesian Mark, "The World Constitution" 114 Harvard Law Review at pg. 511, (524–526) 2000.

institution. However, scholars of international trade regulation who had either been involved in the negotiation themselves or through their interactions with negotiators, have tried to enumerate the negotiating history of TRIPS in various writings. We find considerable part of negotiating history of the TRIPS Agreement discussed as reflections of negotiators' perspectives revisited on the silver jubilee celebrations of establishment of the WTO in 2015. The keynote speech of ambassador Lars Anell, Chairman of the negotiating group at the TRIPS Symposium of 26th February 2015 is noteworthy.³¹² While explaining how the negotiations started and progressed, he contributes to the negotiating history. It is interesting to note that while USA, Japan, the Nordic countries Switzerland, Canada, Australia, New Zealand, Singapore, Malaysia, Uruguay and Colombia were keen to start a trade round, the EC was initially less enthusiastic to push for it. The essence of his speech is found at the end where he says,

First and foremost, I am convinced that it would be very serious if protection of IP were to stifle and prevent research. In a sense it would be self-defeating. There would be less genuine progress to protect. My other concern is more general. I think both politicians and the business community should consider the obvious need to demand a clear, visible, inventive step in order to award 20 years' protection from competition.³¹³

Apart from such published memoirs, this book has also sourced the negotiating history from such scholarly works and through the author's personal interactions with some of the negotiators of the TRIPS Agreement where published records were not available.

From the beginning there was scepticism as to whether IPRs as a non-trade issue should have been linked with trade issues under the new WTO regime. There was a strong belief that IPRs under TRIPS were significantly different from other trade issues such as the labour and environment standards. Also, in effect, trade liberalisation undertaken on a multilateral platform produces positive efficiency where IPRs are trade restrictive. This is since IPRs can lower

312 The negotiating draft of Ambassador Lars Anell (of Sweden) is discussed at length later in this chapter. See, https://www.wto.org/english/res_e/booksp_e/trips_agree_e/chapter_4_e.pdf.

313 Anell Lars, "Keynote speech at the TRIPS Symposium 26 February 2015" in Watal Jayashree and Taubman Antony (eds.), "The Making of the TRIPS Agreement Personal Insights from The Uruguay Round Negotiations" WTO, pg. 366, 371 (365–371), 2015. Also available at, https://www.wto.org/english/res_e/booksp_e/trips_agree_e/chapter_4_e.pdf.

the economic welfare by increasing costs due to the monopolistic nature of the IPRs.³¹⁴

At the time when the GATT was negotiated after World War II, even strong technology-based exporting countries like the US had less than 10% percent of its exports tied to IP.³¹⁵ For this reason there was initially not much interest even among the industrialised countries to link up international trade and IPRs internationally. On the other hand, developing countries did not have any interest in linking IPRs and international trade issues since they were mainly IPRs importing countries. They preferred not to increase the cost of the products through enhanced transaction costs due to protection of IPRs. For this reason, although IPRs were referred to in the original GATT 1947 Agreement, they were not so elaborate.³¹⁶ They were in terms of rights and obligations related to goods. In fact, some other international agreements like the '*Customs Valuation Code*' and the '*Standards Code*' had more elaborate provisions.³¹⁷

Much later, during the US president Ronald Reagan's tenure, the US government decided on linking international trade and IPRs at that 98th US Congress. As a result of this, number of measures were taken to examine the level of IPRs that are maintained by the trade partners of US and how it affected trade with these partners.³¹⁸ This led to the promulgation of The Trade Act of 1984 in US, wherein different policy issues to address protection of IPRs were introduced. Initially steps were taken on the bi-lateral front wherein the US managed to effectively change the IP regimes of some of its partners (e.g. Korea, Taiwan and Singapore). By this time the US government also started moving the IP issues at the international front and it was taken up at the GATT negotiations as an issue of trade in counterfeit goods. In fact, the issue of commercial counterfeiting was first taken up at the end of the Tokyo Round of the GATT 1978 Ministerial meeting. But due to lack of consensus it had to be dropped from

314 Panagariya Arvind, "TRIPS and the WTO: An uneasy Marriage", in Maskus Keith (ed.), "The WTO, Intellectual Property Rights and the Knowledge Economy", Edward Elgar Publishing Ltd., pg. 43 (42-47), 2004.

315 Gadbow Michael, "Intellectual Property and International Trade: Merger or Marriage of Convenience?" in Brown Lonnie and Szweda Eric (eds.), "Trade-Related Aspects of Intellectual Property", pg. 232, 1990.

316 *Article IX* of GATT 1947 established marks of origin and *Article XX (d)* allowed enforcement against infringements of IPR.

317 Braga Carlos Primo, "The Economics of Intellectual Property Rights and the GATT: A View from the South", Brown Lonnie and Szweda Eric (eds.), "Trade Related Aspects of Intellectual Property", Vanderbilt Journal of Transnational Law, William S. Hein and Co. Inc., pg. 247 (243-264) 1990.

318 U.S. Trade Representative, National Trade Estimate, Report, pgs. 222-237, 1985.

the agenda. Later the matter came up again in the Ministerial Declaration of the GATT in 1982.

The first time IPRS came up for discussion was regarding the need for stricter enforcement measures to restrict counterfeit of trademarked products and copyright piracy. The USA and the EEC tried to initiate negotiations on a draft '*Anti-Counterfeit Code (ACC)*' at the end of Tokyo round but did not pick up any traction due to lack of support from other industrialised countries.³¹⁹ Further, although the issue of higher protection of IPRS had come up in the Tokyo Round, it did not bring any impact. The US was not satisfied with the results and in the early 1980s, protectionist tendencies had already been rising in the US Congress.³²⁰

In the GATT, a group of IP experts was formed in 1984 to assess the situation given that there were differences on many issues (e.g. whether GATT was the right forum to address IPRS issues, what should be covered in the IPR protection code), however the core issue generally remained IPRS. There was a consensus that the problem in trade in counterfeit goods had to be tackled and the matter was taken up again in the mid-term review meeting at Montreal in 1986, wherein the US government mainly aimed at stopping piracy. The US government exerted tremendous pressure on specifically countries which accorded weaker protection of IPRS through its '*Special 301*' unilateral punitive measure under '*Omnibus Trade and Competitiveness Act*' of 23rd August 1988.³²¹

Most of these were developing countries that were severely impacted with serious public health and access to affordable medicine problems. They used weaker patent laws that supported legitimate reverse-engineering to locally manufacture pharmaceutical drugs but did not necessarily have weak trademark laws or their enforcement. It is interesting to note that a perception was created by vested interests that developing countries were counterfeiters while the accuser industrialised countries were the sufferers. This narrative was deliberately expanded and propagated pushing the developing countries to a defensive position and making the way for enhanced demands for stricter protection norms under the GATT umbrella.³²²

319 Ibid at 303, pg. 386. Reference to Draft Agreement on Measures to Discourage the Importation of Counterfeit Goods, GATT Doc. L/8417 (31 July 1979).

320 Ostry Sylvia, "Intellectual Property Protection in the WTO: Major issues in the millennium round", Fraser Institute Conference Santiago, Chile, pg. 1, 19th April 1999.

321 Molly Land, "Adjudicating TRIPS for development", in *TRIPS and Developing Countries Towards a New IP World Order?* Edward Elgar Publishing Ltd., pgs. 146, 147 (142–162), 2014.

322 Watal Jayashree, "From Punta del Este to Doha and Beyond: Lessons from the TRIPS Negotiating Process", SSRN Electronic Journal, pg. 3, 2011. Available at https://www.researchgate.net/publication/228122380_From_Punta_Del_Este_to_Doha_and_Beyond_Lessons_from_the_TRIPS_Negotiating_Processes.

Some members presented fifteen subjects on the negotiation agenda but the members failed to gain consensus on four issues, of which the issue of trade in counterfeit goods was one.³²³ The developing country members resisted inclusion of trade in counterfeits for some time, but gradually yielded. The first signal of yielding was noticed when fourteen developing country members presented their position on enforcement of trademarks and copyrights.³²⁴ There were many other issues including some on which there were differences between the industrialised countries that kept the debate going, but finally the mandate to introduce regulations on trade in counterfeit goods was given at the Punta del Este, 1986 Ministerial meeting in Uruguay.³²⁵

The Industrialised countries had formed the 'Quad' group, which pushed for stricter enforcement of IPRs included in the GATT regime with a wide coverage of IPRs. This was countered by another group of 10 developing countries led by India and Brazil with Argentina, Cuba, Egypt, Nicaragua, Nigeria, Peru, Tanzania and Yugoslavia also joining. They resisted formation of a comprehensive code on IP within the GATT.³²⁶ Finally, a ten-plus-ten group was formed and under the leadership of the chair of the negotiating group and assistance of the secretariat, negotiations proceeded to the July 1990 text.

The July 1990 text was the most controversial text since for the first time there was an official proposal that expanded beyond trade in counterfeits and pirated goods. 'Approach A' proposals from developed countries included all aspects of IPRs and 'Approach B' proposal from developing countries that restricted reference only to counterfeits and pirated goods. Eventually 'Approach B' moved up to the Brussels text but was dropped as a separate alternate text since it was not considered credible. In fact, 'Approach B' was incorporated in the comprehensive text including all IPRs hence it became redundant.

The role played by the private sector in pushing the IPRs issue in the GATT negotiations was very crucial at this stage. Practically they were the driving force in moving the issue of protection of IPRs beyond the debate on trade in counterfeit goods. The pharmaceutical, software and entertainment industries

323 Hartridge David and Subramanian Arvind, "Intellectual Property Rights: The Issues in GATT", 22 Vanderbilt Journal of Transnational Law, pg. 894, (893-910), 1989.

324 Communication from Argentina, Chile, Brazil, China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Uruguay, (later joined by Pakistan and Zimbabwe), MTN.GNG/NG11/W/71 (14th May 1990).

325 Molly Land, "Adjudicating TRIPS for development", in TRIPS and Developing Countries Towards a New IP World Order? Edward Elgar Publishing Ltd., pgs. 146, 147 (142-162), 2014.

326 Bradley Jane, "Intellectual Property Rights, Investment and Trade in Services in the Uruguay Round: Laying the Foundations." 23 Stanford Journal of International Law, pgs. 57-98, 1987.

played a vital role, led by the Chief Executive Officer of the prominent US pharmaceutical giant, Pfizer as the Chairman of the Intellectual Property Rights Committee (IPC). Within two years the IPC managed to create a coalition of international multinational corporations (MNC) which comprised not only industries from the US but also from Europe and Japan. This coalition exerted influence on their governments to go beyond restriction on trade in counterfeit goods. As a result, issues like '*minimum standards of IPRS protection*', '*strict enforcement mechanisms*' and '*dispute settlement*' under the new GATT rules were laid on the table. This was objected by the developing countries led by Brazil and India, gradually depicting a larger North-South divide.

The issue of IP protection had caused a good bit of tension not just two camps with India and Brazil on one side and the US and EU on the other, but in general it polarised industrialised nations on one side and the developing world on the other. It even took the turn of an ideological dispute since the industrialised members pushed its ideology on the developing countries. This is because the industrialised countries tried to follow the line of natural justice wherein they tried to argue that they should not be robbed off their technological and literary innovations. While the developing countries felt that the IPRS would increase their costs since protection of IPRS would transfer wealth from their countries without providing proportionate social and economic gains.³²⁷

One of the main objections by developing nations to introduce IPRS protection measures, beyond trademarks and copyrights that would address counterfeits and pirated goods was because they would lose the ability to use reverse-engineering as a mode of technology dissemination. The developing nations believed that strict patent rights would hinder technology-transfer since they would increase the difficulty as well as costs in absorbing new technologies. They felt that there were double standards since their present position is not different to what many of the developed countries had in the last eighteenth and nineteenth centuries.³²⁸ Further, the TRIPS Agreement placed a significant burden on the developing countries in terms of completely reforming the IPRS legal regime in most developing countries. This increased the transaction costs in introducing and implementing the changes on one hand and with the harmonised bottom level of protection on the other. It also imposed negative

327 Stern Richard, "Intellectual Property" in Finger Michael and Olechowski Andrzej (eds.) "The Uruguay Round – A Handbook for the Multilateral Trade Negotiations", World Bank publication pg. 205, 1987.

328 Christopher May, "A Global Political Economy of Intellectual Property Rights – The New Enclosures?", Routledge pg. 86, 2000.

economic implications in the short run where rents got transferred from developing to developed nation.³²⁹

India which was in the forefront of resistance against including IPRs, objected, based on the belief that enhanced protection of IPRs would retard the pace of the country's economic development because India had witnessed a tremendous growth in the generic pharmaceutical sector by removing product patents on pharmaceuticals.³³⁰ But still in India the debate regarding IP protection was divided between definite groups but not effectively organised via associations or organisations as was noticed at later times. Some industries that would possibly be affected by a new stricter regime was against it, while others which had a more global stake was in favour of the need for enhanced protection.³³¹ It is well known that Brazil and India took the leading role on behalf of the developing countries in the debate on IPRs and tried to keep TRIPS issues outside the GATT framework or to maintain a status quo because they had industries that would be negatively affected.

Amidst all the heat on the IPRs, the Uruguay Round of the GATT started on 20th September 1986 at Punta del Esté. In the initial stage the Ministers representing the different Members issued the Ministerial Declaration to establish guidelines regarding the topics to be covered by the negotiations that included subjects like tariffs, non-tariff measures, safeguards, textiles and clothing, agriculture, subsidies and countervailing measures, dispute settlement and the most important among few others were that on IPRs.³³² There was a strong opinion that bringing IPRs into GATT was actually stretching GATT into the domains of WIPO and UNESCO.³³³ However once the negotiations picked steam, it was clear that there was no possibility of preventing IPRs to be included along with the GATT agreement. India tried to block the MFN and NT in GATT from applying to IPRs on the grounds that since the obligations were

329 Anell Lars, "Keynote speech at the TRIPS Symposium 26 February 2015" in Watal Jayashree and Taubman Antony (eds.), "The Making of the TRIPS Agreement Personal Insights from The Uruguay Round Negotiations" WTO, pg. 393, 2015. Also available at, https://www.wto.org/english/res_e/booksp_e/trips_agree_e/chapter_4_e.pdf.

330 Ibid at 2.

331 Michael R. Gadbaw and Timothy J. Richards, "Intellectual Property Rights in the New GATT Round", Westview Press, pg. 189, 1988.

332 Dwyer Amy, "Trade-Related Aspects of Intellectual Property Rights" in "The GATT Uruguay Round: A Negotiating History (1986–1994), Volume IV: "The End Game", Stewart Terence (ed.), Kluwer Law International pg. 20–21, 1999. See, Ministerial Declaration on the Uruguay Round, GATT Doc. No. MIN(86)/W/19 DEC (20 September 1986) available at, https://www.wto.org/gatt_docs/English/SULPDF/91240226.pdf.

333 Cottier Thomas, "The Prospects for Intellectual Property in GATT", 28 Common Market Law Review, pg. 393, Kluwer Academic Publishers 1991.

related to goods and not rights of persons, these should not apply. However, although most of the developed countries had already settled to accept IPRs in the agenda, India's efforts were side-lined and it too like others agreed to include IPRs to restrict trade in counterfeits and pirated goods.

Finally, as elaborated earlier, in Punta del Esté, Uruguay Round of Ministerial Meeting in 1988, a broader text of trade related aspects of IPRs featured in the '*Negotiative Objective*' that read,

In order to reduce the distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure the measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate as appropriate new rules and disciplines.

Negotiations shall aim to develop a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in the GATT.

These negotiations shall be without prejudice to other complementary initiatives that may be taken in the World Intellectual Property Organisation and elsewhere to deal with these matters.³³⁴

After nearly eight years of trade negotiations, the GATT 1994 agreement establishing the WTO was signed and became effective from 1st January 1995. The overall issue of IP was covered by a separate agreement – Agreement on TRIPS, covered under GATT 1995. The TRIPS Agreement became part and parcel of the WTO system as soon as it came into existence.³³⁵ A transition period of one year was allowed³³⁶ to all countries that needed to amend their domestic laws to bring them in compliance with TRIPS. Developing countries were provided an additional ten years to comply to TRIPS, but were required to introduce mechanisms to accept applications for patents from 1st January 2000 either

334 Cottier Thomas, "The Prospects for Intellectual Property in GATT", 28 Common Market Law Review, pg. 393, Kluwer Academic Publishers 1991. See, Ministerial Declaration on the Uruguay Round, GATT Doc. No. MIN(86)/W/19 DEC (20 September 1986) reprinted.

335 Although the WTO was established in 1995, since all member countries were provided one year's, transition under *Article 65* to implement TRIPS provisions into their domestic laws, it became effective in 1996. *Article 11 (2)* of the WTO Agreement, Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, GATT Doc. MTN/FA, 15, December 1993.

336 Under requirements of *Article 65 (1)* of the TRIPS Agreement.

immediately or through a mailbox for deferred examination of patent while providing an immediate EMR to these applications.³³⁷

After long and protracted negotiations and consistent resistance, the developing countries finally agreed to the TRIPS Agreement once certain important flexibilities were incorporated into it.³³⁸ The TRIPS Agreement introduced a common minimum standard of IPRS for all members and further, it brought IPRS in direct relationship with multilateral trade for the first time. It became the most comprehensive agreement on IP without replacing the different international conventions and treaties that had been signed earlier.

6.2 The Negotiating History of Exhaustion

It is important to note that at the time of negotiating TRIPS Agreement, industrialised countries were already generators of IP while the developing countries were not, but both were net users. Hence the obvious divide between developed and the developing nations where the developed countries wanted strictest level of IPRS protection and the developing countries wanted to treat IPRS goods as knowledge goods thus public products, to be used for economic development rather than private gains.³³⁹ IPRS were introduced in the negotiations with the sole intention to restrain trade in counterfeit goods and it was obviously difficult to oppose. In the beginning, on 20th September 1986 when the ministers adopted the initial declaration, a very prominent objective outlined by the declaration was that, the measures and procedures to protect IPRS themselves should not become barriers to legitimate trade.

At the outset it must be mentioned that exhaustion of IPRS was not dealt with in any of the earlier conventions like the Paris Convention or Bern Convention. Perhaps keeping this at the background there was no mention of the exhaustion issue in the ministerial meetings until in the Uruguay round. However, the issue of parallel imports was discussed and in 1988 the GATT Secretariat came up with a text compiled from submissions by different members.

337 Under requirements of *Article 65 (2)* of the TRIPS Agreement.

338 *Ibid* at 322.

339 Ross Julie and Wasserman Jessica, "The GATT Uruguay Round: A Negotiating History (1986–1994), Trade Related aspects of Intellectual Property Rights", Volume 11: Commentary in Stewart Terence (ed. pg. 11, Kluwer Law, 1993).

27. The question has been raised as to what would be the substantive intellectual property norms by reference to which counterfeit goods should be defined. In this regard the following points have been made:

- parallel imports are not counterfeit goods and a multilateral framework should not oblige parties to provide means of action against such goods.³⁴⁰

This also reflected in the notes prepared by the WTO secretariat on meetings of the negotiating group regarding border enforcement measures wherein the view was that such measures should exempt parallel import goods.³⁴¹ The EU took a position supporting international exhaustion for trademarks where it stated,

Limited exceptions to the exclusive rights conferred by a trademark, which take account of the legitimate interests of the proprietor of the trademark and of third parties, may be made, such as fair use of descriptive terms and exhaustion of rights.³⁴²

On the contrary, the US presented a proposal in support of national exhaustion of trademarks.³⁴³ This was opposed by the developing countries including India. They had proposed international exhaustion for both patents and trademarks.³⁴⁴

The expression of some members against restricting parallel imports was clear in the recorded notes of the Secretariat that stated,

340 Trade in Counterfeit Goods: Compilation of Written Submissions and Oral Statements, Prepared by the Secretariat, Doc. No. MTN.GNG/NG11/W/23, 26th April, 1998. Reproduced in UNCTAD – ICTSD, “Resource Book on TRIPS and Development”, Cambridge University Press, pg. 98, 2005.

341 Secretariat note dated 16th August 1989 of the Negotiating Group Meetings dated 3–4 July 1989, Doc. No. GNG/NG11/13 at para D7; Secretariat Note dated 12th September, 1989 of the Negotiating Group Meetings dated 12–14 July 1989, Doc. No. MTN.GNG/NG11/14 at paragraph 26.

342 Guidelines and objectives proposed by the European Community, Negotiating Group on TRIPS, including Trade in Counterfeit Goods, Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade-Related Aspects of Substantive Standards of Intellectual Property Rights, dated 7th July 1988, Doc No. MTN.GNG/NG11/W/26, paragraph III.D.3.b(1).

343 Doc. No. MTN.GNG/NG11/W/71 at paragraph 45.

344 Communication from Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Uruguay, dated 14th May 1990, Doc No. MTN.GNG/NG11/14 at paragraph (1)(1) for patents and 7(2) for trademarks.

[Patents] *Article 24: Rights Conferred*. A participant expressed the view that the proposed provisions on rights conferred were not in line with the principles of intellectual property protection, for example because they tried to invalidate parallel imports and the doctrine of exhaustion of rights.³⁴⁵

The chairman of the TRIPS negotiating group Lars Anell, ambassador of Sweden presented a draft in July 1990, known as Anell draft. It had reference of allowing exhaustion in goods and services with trademarks, but it did not mention anything about patents.³⁴⁶ The draft mentioned,

unless expressly provided to the contrary in this agreement, nothing in this agreement shall limit the freedom of PARTIES to provide that any intellectual property rights conferred in respect of the use, sale, importation and other distribution of goods are exhausted once those goods have been put on the market by or with the consent of the right holder.³⁴⁷

The Anell Draft was duly revised to include specific provision on exhaustion separate from the issue of counterfeit goods but there was no modification of the exhaustion clause.³⁴⁸ This was the first time that the issue of ‘*exhaustion*’ appeared in the issues for negotiations in somewhat direct manner.³⁴⁹ However due to stiff resistance from the United States which wanted to install a ‘*national exhaustion*’ mode, it was still not clear whether international exhaustion can be introduced universally.³⁵⁰ The US proposed provisions of national exhaustion was termed as ‘*international non-exhaustion*’ rule where

345 Secretariat note dated 24th April, 1990 of the Negotiating Group Meetings dated 2nd, 4th and 5th April 1990, Doc. No. MTN.GNG/NG11/20. Reproduced in UNCTAD – ICTSD, “Resource Book on TRIPS and Development”, Cambridge University Press, pg. 99, 2005.

346 Chairman’s report to the group negotiating on goods dated 23rd July 1990, Doc. No. MTN.GNG/NG11/W/76.

347 See, Status of Work in the Negotiating Group, Chairman’s Report to the GNG, GATT Doc. No. MTN.GNG/NG11/W76, July 18, 1990 reprinted.

348 UNCTAD – ICTSD, “Resource Book on TRIPS and Development”, Cambridge University Press, pg. 101, 2005.

349 Status of Work in the Negotiating Group, Doc. Ref. No. 2341 (Oct. 1, 1990), See Amy S. Dwyer, “The GATT Uruguay Round: A Negotiating History (1986–1994), Trade Related aspects of Intellectual Property Rights, Volume IV: The End Game”, Terence P. Stewart (ed.) Kluwer Law International pgs. 30, 31, 1993.

350 Draft Agreement on the Trade Related aspects of Intellectual Property Rights: Communication from the United States, GATT Doc. MTN.GNG/NG11/W/70, May 11, 1990.

the IPRs in one jurisdiction would not exhaust with the first sale in any other WTO member country jurisdiction. The exhaustion issues witnessed North-South cooperation with some of the commonwealth countries like Hong Kong, Australia and New Zealand taking the lead to exclude parallel trade from dispute settlement with number of developing countries following. The industries lobbied extensively with their governments and even when a number of countries preferred international exhaustion, the interest of increased profits restrained the members any consensus position on exhaustion.³⁵¹

The '*Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiation*' was submitted to Ministers in Brussels on 3rd December 1990 and is commonly known as the Brussels Draft. This draft had already formed the foundation of *Article 6* which later stayed on. *Article 6* stated,

Subject to the provisions of Article 3 and 4 above, nothing in this Agreement impose any obligation on, or limits the freedom of, PARTIES with respect to the determination of their respective regimes regarding the exhaustion of any intellectual property rights conferred in respect of the use, sale, importation or other distribution of goods once those goods have been put on the market by or with the consent of the right holder.³⁵²

The modification of the earlier draft to change the language content, clearly shows that the drift from the mode of international exhaustion was not focused on any principle of removal of trade barriers but rather to cater to the demand of some influential negotiating members. Further the lack of progress in the negotiations on Agriculture, Services and Market Access also had a negative effect on the TRIPS negotiation. Further study of the negotiations shows that instead of moving towards a consensus the negotiations on determining exhaustion was about to become standstill. There was confusion as to how the right holder would exhaust the right and a deep divide was noticed between

351 Ibid at 322. Also see, Cottier Thomas, "Parallel Trade and Exhaustion of Intellectual Property in WTO Law Revisited", in Ruse Khan Grosse Henning & Metzger Axel (eds.), "Intellectual Property Ordering Beyond Borders", Cambridge University Press, pgs. 193, 194 (189–232), 2022.

352 Brussels Draft, GATT Doc. No. MTN.TNC/W/35/Rev.1 (Dec. 3, 1990); also see Neff & Smallson, "NAFTA: Protecting and Enforcing Intellectual Property Rights in North America 25 (1994)" – A comparison might be drawn here between TRIPS and NAFTA negotiations to note that in both the US vehemently tried to install the mode of national exhaustion.

developing and industrialised members that restricted any consensus on the issue.³⁵³

Here it is important to note that in 1990 a WIPO Committee of experts on the harmonisation of patent laws had discussed the issue of exhaustion of patent law in its 8th session wherein *Article 19* had opted for national or regional exhaustion. It stated,

[Products] Where the subject matter of the patent concerns a product, the owner of the patent shall have the right to prevent third parties from performing, without his authorisation, at least the following acts:

the making of the product,

the offering or the putting on the market of the product, the using of the product, or the importing or stocking of the product for such offering or putting on the market or for such use.

[Processes] ...

Exceptions to Paragraphs (1) and (2) (a) Notwithstanding paragraphs (1) and (2), any Contracting Party shall be free to provide that the owner of a patent has no right to prevent third parties from performing, without his authorisation, the acts referred to in paragraphs (1) and (2) in the following circumstances:

Where the act concerns a product which has been put on the market by the owner of the patent, or with his express consent, insofar as such an act is performed after that product has been put on the market in the territory of that Contracting Party, or in the case of a regional market, in the territory of one of the members States of such group.³⁵⁴

Finally, a compromise was reached, thus allowing different members to follow different exhaustion modes as was practised in their respective jurisdictions as a compromise.

There appears to be no dissent from the view that under the existing international regimes, countries are already free to practice whatever system of exhaustion they wish, and it has proved to be impossible to negotiate any modification or restriction on this freedom whatsoever. This is to

353 Reproduced in the UNCTAD – ICTSD, “Resource Book on TRIPS and Development”, Cambridge University Press, pg. 102, 2005.

354 Reproduced in the UNCTAD – ICTSD, “Resource Book on TRIPS and Development”, Cambridge University Press, pgs. 102–103, 2005.

a large extent due to the absence of any kind of consensus internationally on what should or what should not be permissible.³⁵⁵

The Final Draft Agreement that was presented by Arthur Dunkel, the Director General of the GATT (the draft was referred to as the '*Dunkel Draft*') on 20th December 1991, contained a compromise statement that read,

for the purposes of dispute settlement and subject to Article 3 and 4, nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.³⁵⁶

It is understood that the US, European and Japanese Pharmaceutical industry representatives that grouped together under the name '*INTERPAT*' exerted influence on their countries' negotiators to take a very strict IPRs stand. In their joint views that they had released after the presentation of the Dunkel Draft, they pressed for complete deletion of the text on exhaustion in *Article 6* and preferred a clear adoption of '*National exhaustion*'.³⁵⁷ Further they also wanted the related footnote in *Article 28 (1)* to be removed. However, there was strong opposition by developing countries when the industrialised members tried to establish a national exhaustion regime and fearing a total failure on the issue, the matter was dropped. As a result, a compromise took shape in the form of *Article 6* of the TRIPS text (which is an unaltered version of that in the Dunkel Draft). Although it is true that national mode of exhaustion was not introduced, a mode of international exhaustion was also not installed *per se*. However, the compromise resulted in removal of exhaustion related disputes from the purview of the DSB.

One can argue that both national and international exhaustions have their drawbacks. National exhaustion allows market segmentation and differential pricing, so obviously less expensive parallel imports can be blocked. This means that this type of exhaustion is not favourable for the consumer since who would have to pay more for a product that is available at a cheaper price in the international market. International exhaustion is said to be deficient from

355 Reinbothe Jörg & Howard Anthony, "The State of Play in the Negotiations on TRIPS (GATT/Uruguay Round)", 5 EIPR, pgs. 159–160, 1991.

356 Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, GATT Doc. MTN.TNC/W/FA, Dec. 20, 1991.

357 Pugatch Meir, "The International Political Economy of Intellectual Property Rights: the TRIPS Agreement and the Advanced Pharmaceutical Industry in Europe", Proquest LLC., pgs. 150, 2014.

the perspective of the IPRs owner who could have reaped higher profits based on the territorial royalty consideration.³⁵⁸ It is ironical that from the beginning of the negotiations, while members discussed ways and means to remove barriers to trade with immense enthusiasm for globalisation, things changed outright the moment discussion started on exhaustion of IPRs. The negotiations were said to have broken down completely on this issue and although there was a lot of deliberation on how national IPRs were to work at the international level, there was only signs of disagreement as far as the vital issue of exhaustion of IPRs was concerned. As a result of this, TRIPS in its apparent interpretation and without any decision of the DSB of the WTO on the issue of exhaustion of patents, not only remained a dissatisfactory agreement but allowed IPRs to become a barrier to international trade.³⁵⁹

6.3 Exhaustion under TRIPS / WTO: Analysis from the Multilateral Trade Perspective

The fundamental principle on which the WTO as a multilateral system is built is the concept of elimination of illegitimate barriers to trade. It advocates removal of barriers that can restrict free movement of goods and services within different geographical boundaries. This is further based on the economic concept of comparative advantage that encourages specialisation to bring in efficiency in the market and thus enhance production. The main reason for bringing IPRs within full purview of GATT 1994 was to remove illegitimate barriers to trade in IP goods through proper enforce mechanisms that got initiated to restrain trade in counterfeits and pirated goods.

Issues like exhaustion of IPRs can be considered core, given that its treatment would ascertain treatment of parallel importation. Once limited to restraining trade through legitimate exceptions, IPRs became an integral part of the WTO multilateral trade regime. It is rather astonishing that even when the aim of GATT is to remove rent-seeking measures, the negotiating members could not determine on the mode of exhaustion and ideally install the type of

358 Cottier Thomas, "The Value and Effects of Protecting Intellectual Property Rights within the World Trade Organization", presentation to the Association Littéraire et Artistique Internationale (ALAI), Journée d'études, 27th & 28th June, 1984.

359 Chiapetta Vincent, "The desirability of Agreeing to disagree: The WTO, TRIPS, International IPR Exhaustion and a few other things", in Introduction, 21 Michigan Journal of International Law pgs. 333, Spring 2000.

exhaustion that would be based on the fundamental principles of the GATT 1994 regulations.³⁶⁰

The issue of exhaustion was one of the most difficult issues during the TRIPS negotiations since some, adamantly favoured adopting national exhaustion while others were equally bent on installing international exhaustion. Finally, it was rested by the decision to exclude the issue of exhaustion from the purview of the WTO as a compromise.³⁶¹ The cause for the confusion in determining a particular mode of exhaustion is because countries were not sure whether IP law should supersede trade law. In case of national exhaustion, it can be argued that because it restricts entry of competing goods from licensed producers of other countries, the goods might not be available at the lowest price. In addition, it causes hindrance to competition in the market and thus negatively affecting international trade. But at the same time, it enforces a stricter IP regime and allows enhanced exclusivity through stricter enforcement of IPRs. Whereas in the case of international exhaustion, it also allows manufacturers of parallel goods from licensed producers to make use of the comparative advantage and thus manufacture and market their products at a lower price. International exhaustion would enable not only open market competition but also in the process result in more efficient allocation of resources.³⁶² Such practice is supported by the principles of multilateral trade law in line with the WTO rules. Moreover, one needs to ascertain the level of monopoly that the IPRs should provide.

On the other hand, if international exhaustion is followed then, it is stated by its critics that the economic benefits of a legal monopoly accorded to the owner of an IP might not be exploited to its fullest capacity. Hence according to some critics, it will undermine the purpose of having IPRs. Although one cannot ignore the fact that the essential functions of IPRs are not to artificially partition a market (as it is done when national exhaustion is followed). It is further argued that if the IP owners sold products in one country and exhausted the rights internationally, then the owner would most likely try to charge a higher price to cover the less profit that would result due to exhaustion. Thus, the monetary interest behind having the IP right would be at stake. Further, it

360 Taubman Antony, "A practical guide to working with TRIPS", Oxford University Press 2011, page 85. Also see, Cottier Thomas, "Parallel Trade and Exhaustion of Intellectual Property in WTO Law Revisited", in Ruse Khan Grosse Henning & Metzger Axel (eds.), "Intellectual Property Ordering Beyond Borders", Cambridge University Press, pg. 197 (189–232), 2022.

361 Gervais Daniel, "Exhaustion" in "The TRIPS Agreement: Drafting History and Analysis", Sweet & Maxwell, South Asian Edition, pg. 64, 2011.

362 Ibid at 5, pg. 100.

could also be possible that the IP owner would avoid differential pricing, which in the long run would go against the argument that international exhaustion would encourage more competition and low prices.

There was considerable confusion amongst TRIPS negotiators to commit on a single mode of exhaustion of the IPRs and hence it became a backburner.³⁶³ Before moving into a debate over the confirmation of the most preferred mode of exhaustion from multilateral trade perspective, a detailed analysis of the different Articles of the TRIPS Agreement as well as the GATT and any other covered Agreement of the WTO is essential.

6.3.1 *Patent Exhaustion under the TRIPS Agreement*

6.3.1.1 Preamble to the TRIPS Agreement

An analytical reading of the Preamble to the TRIPS Agreement would raise the question as to whether a mode of national exhaustion would reduce distortions and barriers to international trade as the Preamble aims to do,

to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade;³⁶⁴

Among the limited number of TRIPS cases that have been addressed by WTO Panels and the AB, in *India – Pharmaceutical Patents Case*³⁶⁵ the AB legitimizes the importance of the Preamble of the TRIPS Agreement while referring to it in terms of consistency with the '*Objects and purpose of the TRIPS Agreement*'. Contrary to the aims of the Preamble, the mode of national exhaustion restricts free movement of goods protected by IPRs since it disallows legally licensed products from competing with the patented products. Further, national exhaustion is discriminatory in terms of international trade because although it allows the patent holder to reap monetary benefit through licensing, the patent holder can still restrict importation of the product he first marketed in that country. Thus, in the case of imported products, the titleholder would be allowed to exercise his rights multiple times, i.e. in

363 Gervais Daniel, "Exhaustion" in "The TRIPS Agreement: Drafting History and Analysis", Sweet & Maxwell, South Asian Edition, pg. 64, 2011.

364 Preamble / Foreword to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

365 WT/DS50/AB/R, 1997 para 57.

the country where the product was first marketed as well as in the countries of importation, whereas in the domestic market the title-holder is allowed to exercise his rights only once.³⁶⁶

If the Preamble to the TRIPS Agreement is followed in letter and spirit, then a member cannot support the mode of national exhaustion since it is not conducive to international trade in a multilateral set up governed by the WTO. On the other hand, a mode of international exhaustion would allow the licensee to market its product simultaneously with the products of the patent holder and hence promote higher competition and encourage removal of barriers to legitimate trade. Thus, it is argued that international exhaustion is the most appropriate mode that reduces distortion and barriers to trade and is in line with the Preamble to the TRIPS Agreement, while at the same time patent enforcement is possible, it does not sacrifice the interest of the patent holder.

6.3.1.2 Article 6: Exhaustion of Intellectual Property Rights

Considering that the MFN principle applies to the TRIPS agreement, where one WTO member's trade preferences or concessions to another, needs to be extended to other members, exhaustion principal is conceptually accepted by the WTO regulatory mechanism without doubt.³⁶⁷ Along with other relevant Articles, *Article 4* will be discussed to bring out the non-discrimination element in greater detail later in this chapter. In such scenario, it is impossible for any member to avoid exhaustion of patents, it is the intricacies of application of exhaustion with relation to parallel trade that needs to be assessed carefully considering various factors. Here, *Article 6* is discussed before other Articles of TRIPS, since this is the only Article that specifically mentions exhaustion of patents. It states,

for the purposes of dispute settlement under this Agreement, subject to the provisions of Article 3 & 4 above, nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights.

It has been already mentioned (while discussing the negotiating history of TRIPS) that the members of the WTO could not agree to a common mode of exhaustion of IPRs for all members. As a result, apparently *Article 6* was

366 Yusuf Abdulqawi and Monacayo Andrés Hase, "Intellectual Property Protection and International Trade", 16 *World Competition*, pg. 128, 1992.

367 *Article 4* TRIPS, "With regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members."

introduced which provides the flexibility to a member to adopt the exhaustion mode that it prefers. However, it is important to note that *Article 6* actually does not give such liberty given that adoption of a particular exhaustion mode is subject to the specific obligations both within this Article and other WTO Agreements.³⁶⁸

However, one needs to carefully examine the notion that, *prima-facie Article 6* allows members to follow any mode of exhaustion and further prevents members from referring the disputes to the DSB of the WTO over an issue of exhaustion. Considering the trade enhancing characteristics of international exhaustion and the intention of TRIPS as reflected in the Preamble to the TRIPS, international exhaustion is most appropriate within the WTO system. It is also sometimes argued that the language of *Article 6*, precludes exhaustion of patents being brought as a violation complaint before the WTO DSB.³⁶⁹ In fact, although apparently it might seem *Article 6* restricts members from bringing exhaustion related disputes to the DSB, there is a qualification wherein disputes can still be brought under *Article 3 (NT)* and *Article 4 (MFN, i.e. MFN)*. Further, practice of *Article 6* needs to qualify under *GATT Article XX (d)* as well as the necessity test as well as is not exempt from assessment of necessity under *Article 31(3)(c)* of the VCLT.³⁷⁰ In such scenario a question arises as to how decisions of domestic courts would be treated under NT and MFN. The same is discussed at length later while addressing NT and MFN specifically under GATT and TRIPS. This means, although *Article 6* tends to be neutral in supporting any specific mode of exhaustion, it makes the exhaustion mode subject to *Article 3 and 4*, which are to be applied uniformly.

Further, one can argue that a member does not have the liberty to establish any mode of exhaustion since that could be inconsistent with *Article 28* of the TRIPS, hence exhaustion issue could still be a bilateral dispute issue.³⁷¹ This

368 Dutfield Graham and Sutherland Uma, "The international law and political economy of intellectual property", in "Global Intellectual Property", Edward Elgar Publishing Ltd. pgs. 34, 35, 2008. Also see, Cottier Thomas, "Parallel Trade and Exhaustion of Intellectual Property in WTO Law Revisited", in Ruse Khan Grosse Henning & Metzger Axel (eds.), "Intellectual Property Ordering Beyond Borders", Cambridge University Press, pg. 200 (189–232), 2022.

369 Ibid 309, pgs. 172, 173.

370 Yamane Hiroko, "The TRIPS Agreement de Lege Lata: The Outline", in "Interpreting TRIPS Globalisation of Intellectual Property Rights and Access to Medicines" Hart Publishing Ltd., pgs. 155, 156, (148–189), 2011. Also see, Cottier Thomas, "Parallel Trade and Exhaustion of Intellectual Property in WTO Law Revisited", in Ruse Khan Grosse Henning & Metzger Axel (eds.), "Intellectual Property Ordering Beyond Borders", Cambridge University Press, pg. 217 (189–232), 2022.

371 Ibid at 122, pgs. 312, 313, (304–342).

can be of considerable concern from the perspective of the necessary policy space that a WTO member might want to exercise in deciding an exhaustion regime that it finds most appropriate, hence not positively contributing to a solution. It is noticed that even after lobbying attempts by industry groups like the International Trademark Association (INTA), the exhaustion issue is limited to its interpretation in terms of *Article 6*.³⁷² Thus, if a member invokes an exhaustion mode which violates *Article 3* and *4*, then the matter might be taken up before the DSB. An in-depth study will show that if any mode other than the mode of international exhaustion is followed, 'like products' would be treated differently. Here it must be noted that exhaustion rules cannot and should not vary depending on the origin of the product.³⁷³

Albeit this should not apply if the patents in the products does not naturally exhaust, in other words, if they are impacted by market manipulations like government regulatory interventions, price caps, etc. then such products need to be exempted from international exhaustion. The logic being, allowing international exhaustion in such cases will bring an effect of export subsidies not only distorting multilateral trade but also violating the Agreement on Subsidies and Countervailing Measures of the WTO.³⁷⁴ A case in point is the Swiss Patent law of 2009 that allows regional exhaustion but excludes cases where the patented products have been subjected to price control or similar other measures. However, this would not include general regulatory approvals or those covered under *Article XX* GATT. Considering that the fundamental reasoning of the GATT and TRIPS is to effect equal treatment to like products, such exclusions would be considered compatible of *Article 6* of the TRIPS Agreement.³⁷⁵

Some critics refuse to read *Article 6* in conjunction with other Articles of TRIPS and other WTO Agreements and are of the opinion that this Article should be interpreted literally, i.e. exclusively on the basis of its content. These critics thus prefer to take a neutral stand and support the view that Members

372 Blakeney Michael, "Trade Related Aspects of Intellectual Property Rights: A Concise Guide to the TRIPS Agreement", Sweet & Maxwell, pg. 42, 1996.

373 Cottier Thomas, "The WTO System and the Exhaustion of Intellectual Property Rights", May 2000, Draft paper based on previous work presented to the conference on the Exhaustion of Intellectual Property Rights, ILA Trade Law Committee, Geneva 6th & 7th November, 1998.

374 Bonadio Bonadio Enrico, "Parallel Imports in a Global Market: Should a Generalised International Exhaustion be the Next Step?", 33 European Intellectual Property Review (3), pgs. 8, (153–161), 2011.

375 *Article 9a*: Federal Acts of Patents for Invention (Patents Act PatA) as on 1st April 2019. Available at, www.admin.ch/opc/en/classified-compilation/19540108/201904010000/232.14.pdf. Please also see, *Ibid.* at 5, pgs. 261, 262.

should be allowed to follow any exhaustion mode that they prefer.³⁷⁶ Here it is important to note that the final wording of *Article 6* resulted after long negotiations and are after careful consideration to maintain a status quo. Given the present circumstances when there are multiple interpretations of the Article specifically dealing with exhaustion, Members need to avoid any reading of *Article 6* in isolation from the other Articles of the TRIPS Agreement or in exclusion of the other WTO Agreements. It is important to give not only due consideration to the other Articles of the TRIPS, but also analyse GATT 1994 and other relevant WTO Agreements to assess their impact on exhaustion. The exhaustion of patents under GATT MFN and NT are dealt with in detail in the next chapter including how in the erstwhile GATT 1947 regime Dispute Settlement panel in 1989 held US Patent Act *Section 337* in violation of NT.³⁷⁷ The fundamental premise being, there is no material difference of substantial nature in the approach towards the GATT/WTO rules on goods and those on IPRs. Both seek to bring in positive effects for the betterment of international trade.

Further, while *Article 6* of TRIPS does not specifically restrain a member from adopting national or regional exhaustion of IPRs, the application of different relevant Articles of the GATT is implicit. GATT applies independently of TRIPS hence non-violation of TRIPS would not preclude compliance with GATT in any manner.³⁷⁸ The relevance of GATT is founded in the fact that parallel trade, triggered by international exhaustion of IPRs including patents, refer to the geographical origin of the product and not the nationality of the right holders. Moreover, *Article 6* of TRIPS does not in any way exclude the purview of the GATT 1994. It has also been argued that TRIPS is '*lex specialis*' or '*sui generis*' hence it supersedes in governance of IPRs and the GATT would not be relevant.³⁷⁹

As a general principle of (international) law, the notion of *lex specialis derogate generali* applies between provisions of a single treaty, between provisions within two or more treaties, between a treaty and a non-treaty standard, as well as between two non-treaty standards. It suggests that whenever two or more norms deal with the same subject matter, priority

376 Bronckers Marco, "The Exhaustion of Patent Rights under WTO Law", 5 *Journal of World Trade*, pg. 142, 1998.

377 *Ibid* at 5, pg. 937.

378 Grigoriadis Lazaros, "Trademarks and Free Trade: A Global Analysis", Springer, pg. 105, 2014.

379 *Ibid* at 376, pg. 143.

should be given to the norm that is more specific since it often takes better account of the particular context addressed or creates a more equitable result. Confirming the relative nature of inter-legality, the *lex specialis* principle only applies in relation to those states which are bound by both norms – such as between two international IP treaties for those states bound by both.³⁸⁰

Considering that TRIPS Agreement imposes different obligations on WTO members than under GATT and does not regulate discrimination based on origin of goods, it is doubtful if the doctrine of *lex specialis derogat generali* can be applied unchallenged.³⁸¹ The impact of different Articles of the GATT on exhaustion of patents and as a result in its treatment of parallel imports have been discussed at length more specifically in the next chapter.

6.3.1.3 Article 3: National Treatment

The NT requirement in TRIPS Agreement require IP applicants and holders including patent holders from outside the WTO member's country the same treatment as that of domestic patent IP holders.³⁸² Some proponents of national and regional exhaustion, although agree that *Article 3 and 4* of the TRIPS lay down conditions that WTO members are required to accord NT and MFN status to all members, still hold the opinion that national and regional exhaustion does not violate these Articles. According to them, these modes of exhaustion do not discriminate on the basis of the

origin of the imported goods but on the nationality of the patent right holder, a good case could be made that such exception would not violate the non-discrimination principles of the GATT.³⁸³

This also shows that even these proponents of national and regional exhaustion admit that goods are discriminated and differentiated on the basis of

380 Ruse-Khan Henning Grosse, "The Protection of Intellectual Property in International Law", Oxford University Press, pg. 2359, 2016.

381 Reichman Jerome, Okediji Ruth, Lianos Ioannis, Jacob Robin and Stothers Christopher, "The WTO Compatibility of a Differentiated International Exhaustion Regime", International Laboratory for Law and Development Research Paper Series, dated, pg. 20. Available at, http://www.eurasiancommission.org/ru/act/finpol/dobd/intelsobs/Documents/WTO%20Compatibility%20of%20Exhaustion%20Regimes_EEC_SkHSEreport.pdf.

382 Ibid at 5, pg. 27.

383 Ibid at 378, pg. 146.

nationality of the patent holders of the different WTO members hence it is important to analyse these two Articles in greater depth.

Here it is important to note the difference between ‘*Same Treatment*’ under the Paris Convention and ‘*Treatment no less favourable*’ in the TRIPS Agreement. Under *Article 2 (1) & (2)* of the Paris Convention, each member country is mandated to grant the same protection to nationals of other member countries that it grants its own nationals and nationals of the non-member countries are also entitled to the same treatment if they are domiciled in the country or have ‘*real and effective or commercial establishment*’ in the member country.³⁸⁴ It is interesting to note that *Article 3*, of the TRIPS Agreement is not just restricted to same treatment but much beyond and reads similar to *Article III:4* of the GATT Agreement on NT. A study of the negotiating history shows that NT always had been an important principle in international IP laws and was the fundamental principle in the GATT 1947 Agreement as far as trade in goods is concerned. The question that arises is whether NT would also apply to TRIPS in respect of IPRs the same way as it applies in GATT.

NT being specifically incorporated in *Article 3* of the TRIPS Agreement, it reads,

1. Each Member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection (here there is a footnote which states – For the purposes of Article 3 & 4, “protection” shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement.) of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in respect of Integrated Circuits.

As mentioned, considering that TRIPS Agreement incorporates the provisions of the Paris Convention, it is important to note that ‘NT’ was included in it in the first category itself as a basic right.

Article 2 (1) of the Paris Convention states,

Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the

³⁸⁴ Article 2, See <https://wipolex.wipo.int/en/text/287556>.

advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

Article 3 further states,

Nationals of countries outside the Union who are domiciled or who have a real and effective industrial or commercial establishments in the territory of one of the countries of the Union shall be treated in the same manner as nationals of the countries of the Union.³⁸⁵

From this it's clear that a country which is a member of the Paris Convention shall have to grant the same level of protection to other member countries' subjects as provided to its own. Interestingly, although both the Paris Convention and TRIPS mandates NT, there is distinction. While Paris Convention mandates same treatment, TRIPS require treatment that is no less favourable.

In GATT there is the notion of de facto non-discrimination that was applied in the *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs (EC – GI)* case. In this case, apart from violation of *Article 3* of TRIPS and *Article III (4)* of GATT, the Panel decided in favour of US and Australia that the EC's GI Regulation did not provide NT to other WTO members' right holders and their products. Protection to other members' GI was made contingent upon the government of that country adopting GI protection mechanism equivalent to that of the EC and in the process, provide reciprocal protection to EC GIs. The Panel found that the EC's regulations pertaining to GI themselves being in breach of GATT were as such inconsistent under *Article XX (d)* GATT. Further, the Regulations that was to be introduced by the other WTO members also needed to have a product examination mechanism for cases where applications and objections were raised by other WTO members. In other words, foreign nationals would have access to the EC GI protection only if the EC granted it on examination through the mechanism like that of the EC, hence no guaranteed access. Hence, the

385 Paris Convention for the protection of Industrial Property, see, https://www.unido.org/sites/default/files/2014-04/Paris_Convention_0.pdf.

additional GI protection being challenged as mentioned above failed the consistency test and could not be justified under *Article XX (d)*.³⁸⁶

Here it raises the argument that if both are like products as is the case for patented products, whether this will be a valid differentiation based on the origin of the goods. In case of trademark for different products, the test of NT under GATT is whether the marked products originate from the same source.³⁸⁷ Here reference may be made to the two decisions of the AB of the WTO, *Japan – Taxes on Alcoholic Beverages (Japan – Alcoholic Beverages)* and *Korea – Taxes on Alcoholic Beverages (Korea – Alcoholic Beverages)* cases.³⁸⁸ These two orders of the AB emphasised that in case of directly competitive or substitutable products which are in competition with each other, if the imported goods are taxed higher than the locally produced goods, then the dissimilar taxation of the directly competitive or substitutable imported domestic products would be considered as protection accorded to domestic product and this would result in violation of *Article III: 2* of the GATT Agreement.

The question as to whether *Article 3* of the TRIPS Agreement treats exhaustion of IPRs in the same manner as GATT, would ascertain the eligibility of the 'national' or 'regional' exhaustion modes under this Article. *Article 3* clearly states that members should accord no less favourable treatment to products from other members as it does to products from its own country. One might argue that if a country follows national exhaustion, it restricts parallel import of products from other members through injunctive relief, damages, etc. on ground that the imported product has infringed the IPRs of the products.³⁸⁹ On the other hand, no such effect exists for domestic products moving from one part of the country to another or within the markets under FTA. The imported products are manufactured legally under licence from the original producer while being marketed through their own channels instead of the distributors

386 Ruse-Khan Henning Grosse, "The Protection of Intellectual Property in International Law", Oxford University Press, pg. 308, 313–315, 2016. See, *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs* case, See, <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/DS/290R.pdf&Open=True>.

387 The HAG case in EU presents the established practice in trademarks long back. See, *Case C10/89, SA CNL – SUCAL NV v HAG GF AG*, (<http://curia.europa.eu/juris/showPdf.jsf?docid=96580&doclang=en>).

388 *Japan – Taxes on Alcoholic Beverages* case, WT/DS8/AB/R, WT/DS10/AB/R and WT/DS11/AB/R, of 4th October 1996 and *Korea – Taxes on Alcoholic Beverages* case, WT/DS75/AB/R, WT/DS84/AB/R of 18th January 1999.

389 Verma Surinder, "Exhaustion of Intellectual Property Rights and Free Trade – Article 6 of the TRIPS Agreement", 5 IIC, pgs. 553, 554, 1998.

chosen by the patent holder. However, that is not actually the test for NT in case of TRIPS since the test is whether there is discrimination is between the local patent holder and the foreign right holder.

Under national exhaustion too, the foreign patent holder can stop the entry of parallel imports exactly in the same way as the original patent holder if the same is registered in the country. Hence there is no discrimination from the perspective of NT under *Article 3* TRIPS either for national, or regional or international exhaustion. Hence on comparison with similar provision under GATT, there is a distinct difference. While in case of the former, NT relates to the nationality of the right holder, in case of GATT, it relates to the origin of the product. In the latter there is discrimination between the free movement of goods within the country in modes of exhaustion other than international exhaustion and restrictions imposed on imported like products. The significant difference being the right and title being on the good and not on the right holder.

6.3.1.4 Article 4: Most Favoured Nation Treatment

Article 4 of the TRIPS Agreement discusses the principle of MFN and states,

With regard to the protection of IP, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members.

It must be noted that the MFN principle in TRIPS, is not adopted from the previous IP conventions since it was absent in these conventions. However, it was very much present in the GATT 1947 Agreement although restricted only to its applications to goods. With the extension of the MFN principle to TRIPS, the principle has been extended not just to IPRs but also to persons, i.e. nationals who would hold IPRs in different member countries. Given that it is now concerning right holder, the question related to exhaustion of patent rights any mode other than the '*international exhaustion*' would be in violation of the well-established MFN principle.

In the case of '*national exhaustion*', there is no specific discrimination of the MFN since the principle is not affected by this mode, but the question is whether there is any violation of MFN in case of '*regional exhaustion*'. The GATT & TRIPS negotiators representing the EU managed to include an exception clause to legitimise regional exhaustion even when it was against MFN under GATT. The argument that the EU being a CU, should be treated as a single entity and further the Union was excluded under exemptions provided for

regional agreement. Accordingly, necessary provision for the same was made in the TRIPS Agreement. *Article 1* of TRIPS while elaborating the ‘*Nature and Scope of Obligations*’, provides an explanation of ‘*nationals*’ in *footnote 1*. It states,

When “nationals” are referred to in this Agreement, they shall be deemed, in the case of a separate customs territory Member of the WTO, to mean persons, natural or legal, who are domiciled or who have a real and effective industrial or commercial establishment in that customs territory.

However, given that the other regional blocs like the NAFTA, ASEAN and others do not practice regional exhaustion of IPRs, it is not very clear if such a qualification is restricted only to CU or would apply to FTAs in general.

Another case in point is the Unitary Patent system in EU, considering that it is expected to provide a mechanism for a single patent right for participating members along with a unified patent court, question arises as to whether and if so, why regional exhaustion would still be legitimate.³⁹⁰ The contrary argument is that, such unitary patent mechanism does not replace the national patents in each member States but exist at parallel with the separate adjudicating mechanisms, hence the question on regional exhaustion within EU is still questionable. Given the fact that the patent right exists in the member State independent of the European patent, considering the entire EU as a single entity for exhaustion is more a decision of market integration enforced through the ECJ, rather than based on legal reasoning.

On the issue of exhaustion, one must note that by allowing exhaustion of IPRs for goods imported from a particular country, a member of the Union while refusing to do the same if the products were from another country a member of the WTO but not of the Union, would seem to outright violate the MFN principle in the GATT. Such discrimination of the MFN principle was however curved in, under a special exemption for regional agreements as provided by *Article XXIV* of the GATT Agreement. It is questionable whether

³⁹⁰ The ‘Unitary Patent’ system which is expected to come into effect from mid-2020 would enable patent protection to up to 26 EU Members through a single application. The Unified Patent Court expected to be set up as an international court would address the problem of parallel litigation. For more details please see, <https://www.epo.org/law-practice/unitary/unitary-patent/start.html>. However, it should also be noted that the unitary patent mechanism needs to be ratified in minimum of 13 countries of the EU and at present it has been challenged before the German Constitutional court. The fate of wide adoption of the unitary patent would be influenced by the German court in mid-2020.

such exemption which is against free trade principles, should be accorded to regional agreements at the cost of multilateral trade. Pre-negotiation view of the effect of MFN on IPRs had exposed some problems since there was a view that it was better not to apply MFN to IPRs since then it would have to be extended to persons (which would in turn affect many bilateral and regional agreements).³⁹¹ The issue of MFN in GATT 1994 with relation to the exhaustion principle will be discussed in greater details in the analysis of the GATT 1994 Agreement in the next chapter.

It is indeed an irony that multilateral trade agreements like the GATT Agreement and its covered agreements, including the TRIPS Agreement which aims at reduction of distortions in international trade, does not consider restrictions imposed by way of such exemption null and void. Had it not been that NT relating to the nationality of the right holder or specific exclusions carved in at the formative stage itself, such exemptions would not have qualified in the '*necessity*' test since international exhaustion, which facilitates in the removal of trade barriers also allow protection of IPRs. Given that the TRIPS Agreement being within the larger framework of GATT 1994 Agreement, one might question whether the necessity test as reflected in *Article 8* of TRIPS Agreement needs to be read within the context of GATT 1994.³⁹² However, based on the above study on NT and MFN, the issue of national and regional exhaustion discriminating over international exhaustion needs to be assessed under relevant provisions of the GATT Agreement rather than the TRIPS.

6.3.1.5 Article 7: Objectives of TRIPS Agreement

Article 7 of the TRIPS Agreement, ties dissemination of knowledge with patent protection through technology transfer. Remedies to patent infringement through injunctive relief, damages, etc. are awarded so that the society is benefited from the invention while the patent holder enjoys government assured market exclusivity for a certain predetermined period. More specifically, *Article 7* aims at promotion of technological innovation and transfer of technology in a manner that is '*conducive to social and economic welfare*' and at the same time brings '*a balance of rights and obligations*'.³⁹³ While interpreting *Article*

391 Dhanjee Rajan and Chazournes Laurence de Boisson "Trade Related Aspects of Intellectual Property Rights (TRIPS): Objectives, Approaches and Basic Principles of the GATT and of Intellectual Property Conventions", 24 *Journal of World Trade*, pg. 12, 1990.

392 Rodrigues Edson Beas Jr., "The general exception clauses of the TRIPS Agreement Promoting Sustainable Development" Cambridge University Press, pgs. 62, 63 (46–64), 2012.

393 *Article 7* states: The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and

7 in the background of the exhaustion issue, it will be noticed that international exhaustion enables the licensee to come in to direct competition with the licensor. Hence it enhances more opportunities of technology transfer, enabling increased dissemination of technology through market competition which is most conducive to economic welfare. The other modes do not enable possibilities of any such technology transfer and are far more restrictive, thus would fail to meet the aims of *Article 7*.

6.3.1.6 Article 8: Underlying Principles of TRIPS Agreement

Article 8 (2) states,

Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of IPRS by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

It has been mentioned earlier and decided by the ECJ (discussed in detail later) that the mode of national exhaustion restrains trade and it is for this reason, the EC (including countries of the EEA) follows the mode of international exhaustion within the region. It is important to read *Article 8* with *Article XX(d) GATT*, applying the necessity test, reflecting suitability, necessity and proportionality. There is absolute clarity that, restraining parallel imports by opting out of international exhaustion of patents is untenable.³⁹⁴ It would be impossible to establish that to protect patents, parallel imports of products need to be restricted.

A careful study of clause (2) of the Article mentioned above will show that it requires appropriate measures (consistent with the provisions of the Agreement) to be taken to prevent practices which unreasonably restrain trade. In such circumstances any mode of exhaustion other than international

dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to balance of rights and obligations.

394 *Article XX (d)* states, "Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: ... (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to ... the protection of patents, trademarks and copyrights." Explained in details in the next chapter.

exhaustion calls for outright rejection since it restrains trade. Further, since national exhaustion mode allows the patent holder to benefit from charging royalty more than once, it can be interpreted as an abuse of the monopoly right accorded to the patent holder. Given that often doubts have been raised as to whether strong IPRS regime can exclusively bring in technological change and economic growth, it is logical to install a strong patent regime while at the same time allowing enhanced market competition.³⁹⁵ If international exhaustion is adopted, parallel trade will be allowed and the industries in the developing countries will be interested in technology transfer as they would gain from comparative advantage.

One might argue that *Article 8* of the TRIPS Agreement, allows discrimination on NT to protect IPRS in the same way as the preamble to the TBT Agreement. More specifically, the preamble to TBT Agreement states,

Recognizing that no country should be prevented from taking measures necessary to ensure the quality of its exports, or for the protection of human, animal or plant life or health, of the environment, or for the prevention of deceptive practices, at the levels it considers appropriate, subject to the requirement that they are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail or a disguised restriction on international trade, and are otherwise in accordance with the provisions of this Agreement.

Here exemption from NT triggers only for specific purposes as mentioned and needs to be justified. It cannot be arbitrary action or disguised restriction on international trade. Similarly, the exemption provided for protection of IPR in *Article 8* of TRIPS, enables patent holders to take specific enforcement measures if the rights are infringed but restricting parallel importation by following the mode of national or regional exhaustion for protecting patents, cannot qualify as justified restriction on NT.

6.3.1.7 Article 28: Patent Rights Conferred

Proponents of national and regional exhaustion usually cite *Article 28* of TRIPS Agreement and state that under this Article, the mode of international exhaustion is not allowed. Before starting a discussion on this Article, the historical

³⁹⁵ Mattoo Aaditya and English Philip (eds.), "Benefiting from Intellectual Property Protection" in, "Development, Trade, and the WTO – A Handbook", The World Bank, Washington D.C., pg. 369, 2002.

developments in IP law in the pre-TRIPS era should be noted when IPRs were governed mainly by the international IP conventions. These conventions acknowledged the principle of territoriality in IP law.³⁹⁶ It is for this reason many supporters of strong IPRs regimes prefer the mode of national exhaustion and fail to accept the fact that TRIPS has changed the scenario and no longer can one look at IPRs exclusively as a territorial issue without considering its effect on multilateral trade in a global setting.

It is an irony that some critics fail to acknowledge that the main reason to include TRIPS is to promote multilateral trade along with effective protection of IPRs. Often it is overlooked that in line with the overall aim of the WTO Agreements, TRIPS Agreement aims to promote barrier-free trade in addition to its aim of providing a harmonized minimum level of IPR protection. *Article 28* does not restrict the possibility of following international exhaustion in any manner since following international exhaustion cannot lead to infringement of the patent.³⁹⁷ *Article 28* does not in any manner present even a hypothetical situation of restraining international exhaustion of patents, it only excludes exhaustion issues from being taken up before the DSB of the WTO.

Article 28 states,

1. A patent shall confer on its owner the following exclusive rights:
 - (a) where the subject matter of a patent is a product, to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing (*Here the footnote 6 with reference to 'importing' states that, this right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6*) for these purposes that product;
 - (b) where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process (*Emphasis added*).

396 Here *Article 4bis* of the Paris Convention might be referred to, which clearly lays down the principle of territoriality but it must be carefully noted that it does not deal in the exhaustion of rights.

397 Demaret Paul & Govaere Inge, "Parallel Imports, Free Movement and Competition Rules! The European Experience and Perspective", in Cottier Thomas and Mavroidis Petros (eds.), "Intellectual Property: Trade, Competition, and Sustainable Development", The University of Michigan Press, pg. 158, 2003.

A careful study of this Article will show that the contradiction in views on the issue of exhaustion occurs because of the mention of '*importing without the owner's consent*' and its treatment.

The critics who support the mode of national exhaustion, often state that this Article allows patent holders to restrict others from, '*making, using, offering for sale, selling or importing (emphasis added)*' products that are covered by the patents, hence restrict items of parallel trade since they are marketed without the prior consent of the patent holders. According to them the exclusive right granted by this Article would not allow third parties to import a patented product or a direct product made from a patented process.³⁹⁸ Further, they are of the opinion that if a WTO member follows international exhaustion, another member that does not follow international exhaustion can retaliate through trade policy sanctions against the member that follows international exhaustion. Such arguments are based on the interpretation that the footnote to *Article 28 (1) (a)* (with reference to *Article 6* of TRIPS), does not change the substantive patent law under TRIPS.³⁹⁹

Proponents of national exhaustion often fail to analyse the issue of exhaustion from the perspective of multilateral trade in the setting of global trade rules of the WTO including the TRIPS Agreement the very purpose of having an elaborate agreement on IPRs. They try to interpret the issue from a very narrow (pre-TRIPS) perspective, thus over-ruling international exhaustion. One might argue that under the Paris Convention international exhaustion could be restricted under *Article 4bis (1) and (2)* of the Paris Convention. Under the Paris Union, members are required to treat patent applications in different member countries independent of patents obtained for the same invention in other member countries. Although there is no specific mention of the exhaustion issue, there is no express mention of excluding it either, hence one can argue that it would apparently apply for exhaustion too. Based on such an interpretation, it is sometimes advocated that *Article 4bis (2)* mentions the independence of patents. As such if a patent is nullified in one country, it would not necessarily be nullified in the other country or if it lapses in one country would not mean that it would also lapse in another country. Similarly, according to

398 Straus Joseph, "Implications of TRIPS Agreement in the field of Patent Law", in Beier and Shricke edited, "From GATT to TRIPS – The Agreement on Trade – Related Aspects of Intellectual Property Rights", 18 Studies International Review of Industrial Property and Copyright Law (11C), Max Planck Institute, Munich, pgs. 191, 192, 1996.

399 Footnote to *Article 28 (1) (a)*, "This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of *Article 6*."

this interpretation, if the patent rights are exhausted in one country it should not necessarily mean that it would exhaust in the other country.

Some critics of international exhaustion further comment that there is no obligation on the part of WTO members to comply with *Article 6* of the TRIPS Agreement since it is placed in Part 1 of the Agreement. According to such interpretation, under *Article 2.1* of TRIPS, Members are obliged to comply with the principles of independence in respect of Parts 2, 3, and 4 of the TRIPS Agreement. Hence, it's argued that even if Article 6 of the TRIPS might allow international exhaustion, it is against the Paris Convention since it is against the principle of independence of patents.⁴⁰⁰ Critics also argue that *Article 6* does not affect Part 2 of the TRIPS Agreement and Part 2 which elaborates on the standards concerning the availability, scope and use of IPRs, makes parallel imports illegal based on the principle of territoriality.⁴⁰¹ Such view does not hold ground since the principle of territoriality as established by the Paris Convention, applies to the existence and not the exercise of the patent right.

Under the Convention, the main aim was to emphasise that a right to allow a patent in another country under a priority right was independent or territorial in nature and not dependent on the priority country.⁴⁰² We need to read this provision of the Paris Convention along with *Article 1.1* of TRIPS which states,

Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

Here it must also be pointed out that the Paris Convention does not state that due to the territorial and independent nature of the patents, developments outside the country where it is patented would not affect or influence it in any manner. Even when patents follow territoriality principle, it is a standard practice to follow absolute novelty instead of relative novelty. If this is the case, then the novelty will consider '*state of the art*' globally and not nationally.

⁴⁰⁰ Pires de Carvalho Nuno, "The TRIPS Regime of Patent Rights", Kluwer Law International, pg. 104–105, 2002.

⁴⁰¹ Gallus Nick, "The Mystery of Pharmaceutical Parallel Trade and Developing Countries", 7 (2) The Journal of World Intellectual Property, pgs. 170, 169–182, 2004.

⁴⁰² Osterrieth, "Die Hager Konferenz" 1925, Leipzig 1926, 37; S. Ladas, Patents, Trademarks and Related Rights, Cambridge (Mass.) 1975, 505, cited in Heath Christopher.

Under same logic exhaustion of patent laws should also be international. Here it must be considered carefully that there is nothing contradictory between *Article 4 bis* of the Paris Convention and the doctrine of exhaustion since while the former deals with domestic patent right the latter deals with the economic exploitation of the patented product.⁴⁰³

Further, nothing impairs the law of territory to consider effects of facts and events that take place outside the territory. In fact, since the footnote to *Article 28* clearly refers to the exhaustion issue, the right of '*making, using, selling and importing*' cannot escape exhaustion. The footnote makes it clear that the right of importation does not affect exhaustion in any way. It should also be noted that if it is accepted that exhaustion is allowed because of the footnote to *Article 28*, then in true sense there cannot be discrimination between national and international exhaustion. Moreover, one cannot interpret exhaustion based on territoriality principle and at the same time overlook the basic intention of patent law.

Some others who support national and regional exhaustion modes, opine that a mode of international exhaustion is against *Article 1* of the TRIPS Agreement which requires all parties to abide by the TRIPS rules. They confer that *Article 28* requires members to follow the mode of national exhaustion and hence they feel that if a member does not follow such mode of exhaustion, it would be against the member's obligation under *Article 1*.⁴⁰⁴ However again these proponents of national and regional exhaustion tend to overlook the fact that the WTO Agreement clearly states that the other covered agreements (which includes the TRIPS Agreement), are governed by the WTO Agreement which aims at removal of trade barriers. Restraining international exhaustion of patent, converts IPRS into non-tariff barriers to trade hence are counter-productive to the aims of the WTO multilateral system.

The critics also argue that since the rights of the patent holder under the TRIPS Agreement are subject to the patent owner's consent, exhaustion is also tied to the consent. Such arguments are flawed given the fact that it undermines the exceptions to such consent which are already embedded in domestic law and TRIPS defines such exceptions, albeit limiting them.⁴⁰⁵ Moreover, these interpretations totally fail to acknowledge the fact that the aims and

403 Ibid at 190, pg. 628, (623–632).

404 Harvey Bale James, "The conflicts between parallel trade and product access and innovation: The case of pharmaceuticals", *Journal of International Economic Law*, pg. 638, 1998.

405 Abbott Frederick, "Parallel trade in pharmaceuticals: trade therapy for market distortions", in Calboli Irene and Lee Edward (eds.), "Research handbook on Intellectual Property Exhaustion and Parallel Imports", Edward Elgar Publishing Ltd., pg. 159 (145–165), 2016.

objectives of the TRIPS is not identical to the IP conventions. *Article 4bis* of the Paris Convention never declared that national exhaustion is to be adopted by members. With the establishment of WTO and with the TRIPS coming into force, protection of IPRs have moved beyond the principle of territoriality to IPRs as crucial component of free trade which cannot enjoy the fruits of IPRs enforcement without honouring foundation of free trade.

In the present scenario under the GATT/WTO regime, the TRIPS Agreement not only makes the IPRs regime strict and effective, it also has a role to promote global trade. International exhaustion of patents aims at promoting a balanced approach towards rights and obligations of producers so that technical knowledge can be used in a way conducive to social and economic welfare. Further, international exhaustion also acts as checks and balance measure to restrain the patent holder from profiteering from the exercise of the patent. It receives its due incentive through the returns on placing the patented product or the product manufactured under a patented process on the market the first time. International exhaustion mandates the patent owner to compete in the global market on principles of free trade and pass on the benefits of consumer benefits by way of access to the patented products at the lowest possible market driven price.⁴⁰⁶ The, national exhaustion on the contrary, limits competition only among exclusive licences and distributors operating in restrictive geographical areas.

6.3.1.8 Article 30: Exceptions to the Patent Rights Conferred

Article 30 deals with the exceptions to the patent rights conferred in *Article 27* of TRIPS for any invention in all fields of technology, including processes and products. It states,

Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

This can be considered a limited exemption that, on one hand serves the purpose of the exemption, while on the other, does not hinder the legitimate interests of the patent owner. Given its nature, WTO members have used the

⁴⁰⁶ Soltysinski Stanislaw, "International Exhaustion of Intellectual Property Rights under the TRIPS, the EC Law and the European Agreements", 4 GRUR Int., pg. 317, 1996.

provision to draft laws to allow research exemptions for patents that are similar to 'fair use' in copyrights.⁴⁰⁷ Popular in some jurisdictions as 'Bolar Exceptions', in the pharmaceutical industry such exceptions are used for applying to regulatory bodies by generic manufacturers before expiry of the patent to enable quick marketing of a generic drug on expiry of the patent.⁴⁰⁸

The legality of use of *Article 30* exception by pharmaceutical manufacturers was challenged before the WTO DSB in the 'Canada – Patent Protection for Pharmaceutical Products' case (*Canada – Pharmaceuticals*) and found to be permissible. The practice of filing for regulatory compliance of generic versions of patented pharmaceutical drugs before the national drug authority before expiry of the relevant patent and stockpiling of generic drugs in anticipation of the patent expiry were upheld to be within the exemptions provided under *Article 30*. The Panel considered the public policy requirements that a WTO member may need to address while adjudicating the case and decided that this exception claimed by Canada under *Article 30* of the TRIPS Agreement would result in a balanced intellectual property regime. The Panel Report also provided guidance to how the three-step test is to be interpreted as well laid down that the words 'limited' and 'exceptions' to be interpreted in combination as a narrow exception. Through the three-step test the Panel decided that the exception curtails the patent owner's right in only a small diminution.⁴⁰⁹ The findings in *Canada Pharmaceutical* case confirmed that the TRIPS Agreement allowed WTO members necessary flexibilities in framing and enforcing their municipal legislation to provide certain restricted exemptions to patent protection for a balanced patent regime. Further, as per the Doha Declaration (discussed in details in Chapter 10), WTO members may also authorise exportation and importation of pharmaceutical drugs to address national health emergencies as an exception provided under *Article 30*.⁴¹⁰

The provisions under *Article 30* have been lauded to bring a balanced patent regime in a WTO member country through limited exceptions to the patent

407 Gitter M. Donna, "International conflicts over patenting human DNA sequences in the United States and the European Union: An argument for compulsory licensing and a fair use exception", 76, *New York University Law Review* 6, pg. 1690, 2001. Available at, <https://www.nyulawreview.org/wp-content/uploads/2018/08/NYULawReview-76-6-Gitter.pdf>.

408 https://www.wto.org/english/tratop_e/trips_e/factsheet_pharm02_e.htm#art30.

409 *Canada – Patent Protection for Pharmaceutical Products*, WT/DS114/R (2000). See, https://www.wto.org/english/tratop_e/dispu_e/7428d.pdf.

410 Daya Shankar, "Access to medicines, Article 30 of TRIPS in the Doha Declaration and an Anthropological Critique of International Treaty Negotiations", Deakin University – Bowater School of Management and Marketing, 2003. Available at, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=391540.

rights wherein the patent owner would not be able to allege infringement and enforce its rights. However, there would be considerable conditions too as such exceptions would be only applicable under certain conditions. In a hypothetical case, if a generic pharmaceutical company decides to manufacture a patented pharmaceutical drug under *Article 30* exception exclusively for exporting to a WTO member country without capacity to produce the drug, it cannot be considered an infringement. In such a case, the importing country would need to grant CL for such importation exactly in a manner it would have needed to grant for locally producing the patented pharmaceutical product.

Article 30 as interpreted by the Panel in *Canada Pharmaceutical* case, clearly does not impact exhaustion. However if a comparison is to be drawn between the patent exemption regime under *Article 30* and patent exhaustion regime of a WTO member, specifically in case of exportation under the exceptions, international exhaustion would be more seamless and use of *Article 30* could be more restrictive.⁴¹¹ It has already been found that although patent rights are territorial in nature, legitimate extraterritorial sales outside the authorised dealership via parallel trade is not barred.⁴¹² It must also be noted that the use of *Article 30* exception in an exporting country needs to be in sync with a compulsory licensing for importation under *Article 31* in the importation country would work. Hence, such exportation would be a violation in absence of CL under *Article 31* in the importing country. In other words, if a country evokes *Article 30* and allows a company to produce generic version of a patented product for permitted exceptions but instead exports them to some other WTO member's markets which has not notified importation under *Article 31*, the patent being unenforceable, cannot be considered to have exhausted. Hence, when a patent is temporarily withdrawn or suspended or made un-enforceable under *Article 30*, products covered under such patent shall not exhaust on exportation.

6.3.1.9 Article 31: Use of the Patent without Authorisation of the Right Holder

With the TRIPS Agreement defining patentability and elaborating number of procedural issues, it had expanded beyond the existing international treaties on IPRs. However, concerns of anti-competitive practices through IPRs were raised by developing countries and competition policy checks and balance

⁴¹¹ This position has been widely been propagated as a policy option by Medicines sans Frontier. See, <https://msfaccess.org/why-article-30-will-work-why-article-31-will-not>.

⁴¹² Correa Carlos, "Intellectual Property Rights, the WTO and Developing Countries – The TRIPS Agreement and Policy Options", Zed Books Ltd., pg. 84, 2000.

measures were debated.⁴¹³ At the end it trickled down to *Article 31* in the form of limitations to the patent rights conferred. *Article 31* of the TRIPS Agreement covers use of patented products without the authorization of the right holder and does not specifically refer to it as CL, a term that later has become well-known and was initially used in the Paris Convention. In *Article 5 (A) (2)* of the Paris Convention it states,

Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.⁴¹⁴

Slightly differing from the provision in the Paris Convention where the aim had been solely to address market abuses, in the TRIPS Agreement, *Article 31* adds on to the exceptions to patent rights that has already been provided in *Article 30*, hence the reason might not necessarily be to address IPR-centric abuses but to address other situations too. Further, subsequently in the Doha Declaration (discussed in details in Chapter 10), the CL provisions under *Article 31* address situations of national calamities or exigencies are vividly dealt with.

There are also specific provisions for Competition law remedies as in *Article 31(c)* with regards to semi-conductor technology where it states,

The scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to *remedy a practice determined after judicial or administrative process to be anti-competitive. (Emphasis added).*

Competition law objective can also be noticed in *Article 31(k)* which states,

Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f)⁴¹⁵ where such use is permitted *to remedy a practice*

413 Schovsbo Jens, “Fire and water make steam – redefining the role of competition law in TRIPS”, in Kur Annette and Levin Marianne (eds.), “Intellectual Property Rights in a fair world trading system”, pgs. 326, 327, (308–358), 2011.

414 See, <https://wipolex.wipo.int/en/text/287556>.

415 *Article 30 (b)* states, “such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a

determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur. (*Emphasis added*).

It is clear that there is no direct relation between *Article 31*, *Article 31bis* and exhaustion of patents hence it is not analysed in further details. However, it is important to note that if *Article 31* or *Article 31bis* is evoked, the patent rights would be curtailed. E.g. in case of issuance of CL the right holder would be restricted from monetising the patent under free market conditions. In such scenario, as earlier discussed in case of evoking *Article 30*, the patents should not be allowed to exhaust since its existence itself is controlled. As such if a patented product is manufactured under CL at restrictive licensing conditions, any import of such products cannot be considered for parallel importation. Exhaustion is and should be adopted independent of *Article 31* and *Article 31bis* and the two should not be linked in any manner.

6.3.1.10 Article 40: Controlling Anti-competitive Practices in Licensing
Article 40 of the TRIPS Agreement provides with measures to control anti-competitive practices that might occur through IP licence contracts. However, most of the measures are guidelines for domestic action by national adjudicators and regulatory authorities hence to be applied in the relevant market and not at the multilateral level. Further, in absence of any definition of '*relevant market*', or clear indication as to what might constitute '*abuse*' of IP, it completely depends on the competent national adjudicators or regulatory authorities to address it on a case-by-case basis. Some guidance is provided by the

national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;" and *Article 30 (f)* states, "any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use."

United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices.⁴¹⁶

It has already been discussed that there are no definite competition/anti-trust laws in the WTO or the TRIPS Agreement to control anti-competitive trade practices. In such circumstance, owners of IPRs might try to supersede their legitimate exclusivity to the extent of abusive monopoly not only directly through IPRs but also through their license contracts. Very often the licensee is unable to negotiate a balanced deal due to the stronger market power of the licensor, resulting in anti-competitive license contracts. Hypothetically, the licensor might contractually bind the licensee not to sale its products beyond a certain market if it receives the patent holder's technology, even when the country's laws on IPRs allow such trade, i.e. allows international exhaustion. This is in essence, a reflection of the Preamble of the TRIPS Agreement wherein, it aims to put in place an effective system of checks and balance so that protection of IPRs does not become an impediment to dissemination of knowledge and technology.

In the first instance, *Article 40* acknowledges the fact that licensing agreements can restrict free and fair competition and at the same time allows countries to take necessary legal measures to restrain owners of IPRs from abusing the monopoly that might have been created through the exclusivity.⁴¹⁷ However the problem lies in the fact that although the aim is to provide sufficient checks against possible abuse of IPRs, there is a proviso that makes any such measure compliant to the protection of IPRs. As such it becomes a matter of interpretation as to whether the protection of IPRs provided is necessary or an excess that constitutes an abuse. Moreover, the action against any anti-competitive contract is also voluntary and not obligatory. This means that member countries can put in place legal measures in their national laws to check

416 Roffe Pedro and Spennemann Christoph, "Control of Anti-competitive Practices in Contractual Licenses under the TRIPS Agreement", Kluwer Law, pgs., 322, 323, 324 (293–329), 2008.

417 *Article 40*, "1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology. 2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grant-back conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member."

any anti-competitive practice but that is not mandatory under TRIPS *Article 40*. Hence, if a country does not have any such laws to check anti-competitive practice, the country cannot be brought before the DSB of the WTO.

It must also be noted that *Article 40* also provides guidance on problems related to cross-border restraints wherein it requires WTO members to solve the problems through consultations. But here too there is no specific right or norm set by TRIPS, hence such clauses are mere guidance which can never contribute effectively in providing any remedy.⁴¹⁸ It has been discussed in Chapter 3.2.3 how in the EU, competition law principles were adopted by the ECJ and international exhaustion within the EU was established by the *Grundig-Consten* case which became a landmark in being known as regional exhaustion. Here the free movement of goods within the EU member countries was considered from the perspective of intra-brand trade. However, the most crucial arguments in the case that superseded trademark laws were that of anti-cartel aspect of European Competition law.⁴¹⁹ Although a country might not be mandated under *Article 40* to remedy an anti-competitive practice through adjudication before the DSB of the WTO, hypothetically not following international exhaustion under *Article 6* might be brought before the DSB in conjunction with *Article 40*.

⁴¹⁸ *Article 40*, “3. Each Member shall enter, upon request, into consultations with any other Member which has cause to believe that an intellectual property right owner that is a national or domiciliary of the Member to which the request for consultations has been addressed is undertaking practices in violation of the requesting Member’s laws and regulations on the subject matter of this Section, and which wishes to secure compliance with such legislation, without prejudice to any action under the law and to the full freedom of an ultimate decision of either Member. The Member addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting Member, and shall cooperate through supply of publicly available non-confidential information of relevance to the matter in question and of other information available to the Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member. 4. A Member whose nationals or domiciliaries are subject to proceedings in another Member concerning alleged violation of that other Member’s laws and regulations on the subject matter of this Section shall, upon request, be granted an opportunity for consultations by the other Member under the same conditions as those foreseen in paragraph 3.”

⁴¹⁹ *Ibid* at 107.