

Free Trade Agreements and Exhaustion: Different Regional Trade Agreements

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9.1.1 *Regionalism and Its Relationship with Multilateralism*

The issue of patent exhaustion under a regional or preferential trade agreement in relation to the broader gamut of the multilateral trade governed by the WTO becomes crucial. It is important to understand how the relationship between the two are defined and interpreted to ascertain the exhaustion mode that should be adopted. In this chapter the aim has been to understand the dynamics of regionalism within the framework of multilateral trade rules as applied to patent exhaustion. Subsequently the chapter presents the mode of exhaustion practiced in some of the CU. Given the uniqueness of EU where the regional exhaustion was introduced, attempt has been to elaborate how the practice evolved through jurisprudence.

Efforts to update international rules on multilateral trade to bring it up to speed with time became successful under the GATT regime moving towards formation of the WTO. Despite their support for multilateral trade that prompted the parties to establish the WTO, some of the negotiating countries tried to carve out gaps for regionalism to accommodate RTA and PTA at parallel. The advocates of regional trade within these countries lobbied with their respective governments to continue with the regional trade arrangements on the ground that this enhances free trade in the region since it allows reciprocal removal of trade barriers. They negotiated provisions into the GATT 1947 that they believed could assist maintaining membership within the regional bloc and GATT simultaneously. Thus, *Article XXIV* pertaining to RTA, PTA and FTA would also include CU and considered valid under GATT 1994 Agreement although it was not beyond criticism due to lack of clarity.⁵⁴⁵

This move towards parallelism did not become the problem in the path towards multilateralism since countries also brought in the old (1979) '*Enabling Clause*' as a '*Special and Differential Treatment*' (S & DT) for countries that met

545 Bhagwati Jagdish, "Regionalism and Multilateralism: An Overview", in de Melo Jaime and Panagriya Arvind (eds.), "New Dimensions in Regional Integration", Cambridge University Press, pg. 44, 1993.

certain criteria, e.g. LDCs. Such non-reciprocal tariff preferences and different other such preferences were provided as an exception to the well-established MFN requirement and members did not oppose this parallelism through creation of regional exclusivity. However certain checks and balance measures were put in place to make sure the regionalism that was introduced, was a parallel effort in enhancing trade liberalisation and was not counter-productive.

PTA are still opted by different WTO members and it was not a practice of the past. In fact, in today's multipolar world, new power structures are constantly evolving moving from erstwhile transatlantic leadership. Inter-regionalism is providing new dimension, especially with the entry of China within the WTO fold. With the multilateral trade negotiations stalled or moving in a snail's pace, countries are seeking alternates. One sometimes tends to focus on WTO and GATT only as a trade negotiating forum, hence criticising it for being unproductive due to the state of negotiations and reasoning for the tilt towards regionalism and PTA. It must be noted that irrespective of stalled negotiations, multilateral trade has been increasing all the while with more people depending on it for livelihood. With the administration of various trade agreements, technical cooperation for members and the crucial dispute settlement mechanisms, WTO has been far more than just a platform for trade negotiations.⁵⁴⁶

Considering that free trade is welfare enhancing, the philosophical basis of the PTA is not alien to WTO since both are founded on the principles of market access, non-discrimination and transparency. The aim of the PTA is to enhance free trade among its members, but often these agreements contain additional explicit requirements than those under WTO agreements. On careful analysis as to the tendency for such enhanced or stricter requirements, one would have to consider the socio-economic developments. Disparities in income both domestically within the WTO members as well as inter-State within the WTO membership has caused and causing mass migration into more prosperous geographies. This has increased protectionist tendencies in the prosperous members reflecting in the agricultural market or in services, as well as there is substantial increase in cases of local content requirements in domestic legislation. In such a scenario, new groupings and re-groupings of countries enable to have revised market access negotiations based on new trade regulations.⁵⁴⁷ This forum shifting obviously is not globally trade enhancing with many developing and least developed countries (LDC) left out as well as detrimental to WTO decision making since it influences negotiating position of members.

546 Cottier Thomas, "The Common Law of International Trade and the Future of the World Trade Organization", 18 *Journal of International Economic Law*, pgs. 3, 4, 6, (3-20), 2015.

547 *Ibid* at 536, pgs. 6, 8, 18, 24, 25.

Before one gets into the debate on multilateralism versus regionalism, one needs to understand the concept of '*regionalism*'. Regionalism is often referred to as institutionalised co-operation among countries forming a bloc that provide certain trade or other benefits, exclusively to members in the regional bloc.⁵⁴⁸ It is founded on the formation of a CU or based on RTA or FTA. While exploring the reasons that might have prompted such move by some of the negotiating parties of the WTO, one would find that in a multi-polar world, different countries pursue different interests. In such circumstances, to supplement the efforts towards integration on a global scale, there would be synergy in enhanced integration on the domestic and regional front so that global challenges can be addressed as a bloc if not individually while continuing to engage multilaterally.⁵⁴⁹

The relationship between the TRIPS Agreement and the FTAs, leads to the question as to what or how should IPRs be treated between the two, whether the FTAs executed after the TRIPS should follow the TRIPS or go beyond. Considering the possibilities of conflict of laws, one needs to address this under *Article 41 VCLT* to read the constitutional elements of the TRIPS that is the common goals of IP protection and enforcement. Thus, conditions regarding IPRs laid down in any FTA cannot derogate from the TRIPS Agreement.⁵⁵⁰

Further, considering the benefits of enhanced integration, even when multilateralism was being established, regionalism was never abandoned. There might be different motives for opting for regionalism, but some common ones are:

- It is believed that since there is relocation of factors of production and specialisation, there will be subsequent price cuts. Thus, there will be rise in productivity resulting in higher competition, more investment flow and higher income. This will have immediate effect in boosting national economic welfare as well be good in the long run.
- It is usually argued that regionalism brings in trade diversion with suppressing effects, it is better than trade cutting since there is enhanced market access.

548 Donald Barry and Ronald Keith, "Introduction: Changing Perspectives on Regionalism and Multilateralism" in Barry and Keith edited, "Regionalism, Multilateralism, and the Politics of Global Trade", UBC Press Vancouver, Toronto, pg. 3, 1999.

549 "Regional Perspectives on the WTO Agenda: Concerns and Common Interests", paper presented at the "ESCAP/UNCTAD High-level Meeting of ESCAP Developing Countries in Preparation for the Fourth WTO Ministerial Conference" and at the "Doha and Beyond: Expert Group Meeting on the Future WTO Agenda" Bangkok, pgs. 1, 2, (24–26), September 2001.

550 Ibid at 380, pgs. 5122, 5123.

- It reduces transaction costs since it reduces communication, transportation and information dissemination costs considerably.
- It cannot be ignored that political interests in forming and/or maintaining RTA, PTA, FTA regionally is often significant. Sometimes political stability in the region is aimed through RTA on the notion that if neighbouring countries invest in each other's markets, going against each other would negatively affect one's own economy hence conflicts would be avoided.
- Often when multilateral trade negotiations fail or become slow due to lack of consensus, countries that are interested in trade liberalisation try to move towards RTA.⁵⁵¹

Recent trends will show that there has been a shift on IP issues from the multilateral arena under WTO/TRIPS to PTA with an intention to introduce protection of IPRS far beyond the TRIPS (commonly termed as TRIPS-plus requirements).⁵⁵² The growing tendency of getting countries to agree to TRIPS-plus IP protection and enforcement through these international agreements create a '*spaghetti bowl*' of PTAs and RTAs of standards different from that of TRIPS.⁵⁵³ This trend in moving TRIPS-plus in FTAs is not new it has been a growing for quite some time as noticed in the US FTA with Chile, Singapore, CUFTA and is worrisome.⁵⁵⁴ The trend of moving from one forum to another by way of changing venues to get single decision in favour of the shifter is well known as '*Forum shopping*' and has its own problems. The trend in moving from multilateral trade agreement to a PTA or from one PTA to another is more complex given its international political dynamics. In these scenarios, States as well as non-state actors (e.g. private conglomerates) relocate the entire rule-making processes and not just the venues to favour their financial and other interests and their own mandates. This is a complete '*Regime Shifting*' that is initiated with a long-term strategy that may not only change the laws and entire rulemaking processes but also involves a complete change even in the policy space of the concerned countries and its entire decision-making.⁵⁵⁵

Hence whether one prefers or not, apart from promoting regional trade interests, RTA, PTA and FTA would continue being used as foreign policy

551 Schultz Siegerid, "Regionalisation of World Trade: Dead End or Way Out?" in Dijk Pieter van and Sideri Sandro (eds.), "Multilateralism versus Regionalism: Trade Issues after the Uruguay Round", EADI, pg. 22, 1996.

552 See pg. 80, https://www.wto.org/english/res_e/booksp_e/trips_agree_e/chapter_4_e.pdf.

553 Ibid at 380, pg. 9548.

554 Mayne Ruth, "Regionalism, Bilateralism, and "TRIPS PLUS" Agreements: The Threat to Developing Countries" UNDP, pg. 14–16 2005.

555 Helfer Lawrence, "Regime Shifting in the International Intellectual Property System", No.1, Symposium: International Regime Complexity, Vol. 7, pg. 39, 40, (39–43), March 2009.

tool to exert influence over members.⁵⁵⁶ In such negotiations like Regional Comprehensive Economic Partnership (RCEP), the recently closed PTA/RTA negotiations, a number of trade issues are involved that have cross-effect. Hence maintaining coherence with already agreed standards of trade liberalisation under the WTO is even more important.⁵⁵⁷ Considering that regime shifting is happening and will continue to happen, WTO members engaging in PTAs need to prepare in advance to restrain TRIPS-plus provisions being adopted. To be able to effectively nullify any such effect of regime shifting, the affecting countries (often developing countries and LDC) need to integrate counter-regime norms so that TRIPS-plus provisions are not injected into the WTO system and its dispute settlement mechanism through back door. It is only by adopting such multi-step strategies that members can enhance their negotiating power.⁵⁵⁸

9.1.2 *Development of Regionalism in Different Parts of the World*

It has been already mentioned that the exclusions favourable to regional trade was not newly incorporated in the GATT 1994 Agreement but was even there in the original GATT 1947 Agreement. Here it must be noted that under this clause, both CU and FTA were permitted, allowing regionalism within multilateralism. As a result of this, different regional groups grew up historically with the creation of the European Coal and Steel Community (ECSC), with Belgium, France, Germany, Italy, Luxembourg and the Netherlands as members. When this model succeeded in its goals, it encouraged the formation of the EC (here it must be noted that these ECSC countries signed the Treaty of Rome in 1957 which took shape of the first European Community). This was followed up by the formation of number of other regional groups in Europe, of which, the European Free Trade Association (EFTA) formed in 1960 is worth a mention. However, it must also be mentioned that it was not the aim of the proponents of the multilateral trading system to set up a hundred percent CU and FTA within it although regionalism within multilateralism was allowed.⁵⁵⁹

556 Cattaneo Olivier, "The Political Economy of PTAs", in Simon Lester and Brian Mercurio edited, "Bilateral and Regional Trade Agreements: Commentary and Analysis", Cambridge University Press, pgs. 28, 77, 2009.

557 The ASEAN web page provides a good overview of the RCEP. Available at, http://asean.org/?static_post=rcep-regional-comprehensive-economic-partnership.

558 Ibid at 555, pgs. 41, 42.

559 Bhagwati Jagdish, "Regionalism and Multilateralism: An Overview", in Bhagwati, Krishna & Panagriya edited, "Alternative Approaches to Analyzing Preferential Trade Agreements", The MIT Press, pg. 9, 1999.

Multilateralism and regionalism started existing at parallel now more than fifty years without clashing with each other.

This trend of regionalism was initially not followed in other parts of the world, even when there were many such proposals (e.g. North American Free Trade Agreement – NAFTA, Pacific Free Trade Area – PAFITA, Latin American Free Trade Area – LAFTA, which was later modified into Latin American Integration Agreement – LAIA). It was only in the 1980s that the trend in regionalism expanded to countries outside the European Community (EC) and finally with NAFTA coming into existence in 1994, regionalism became a transatlantic phenomenon. Initially the US (which became a party to the NAFTA) did not support regionalism but the change in their trade policy came mainly to counter the trade protectionism tendencies of the EU. Interesting to note that although multilateralism gained a big boost with the formation of the WTO, it was never able to supersede regionalism. One can clearly notice that although the multilateral rules of trade are usually followed and lapses leading to disputes are settled under the WTO, whenever there was no agreement between WTO members on going forward with trade rules, PTA gained prominence.

The failure of the WTO's Cancún Ministerial meet in 2003 that practically halted the movement of Doha development round, '*galvanised*' efforts to push regionalism along with bilateral trade deals.⁵⁶⁰ After 19 years since then, although negotiations have not been called off, there has been very slow progress, more of an adhoc nature specific to some issues rather than a closure of the Doha round. In 2008, the '*July package*' was expected to help conclude the Doha Round with consultations on a range of subjects including revised draft modalities for agriculture and non-agricultural products but to no avail.⁵⁶¹ Later, the '*Bali package*' in 2013 witnessed addressing the '*Food security*' issues that were of crucial importance to developing countries and on the other hand the coming into existence of the Trade Facilitation Agreement.⁵⁶² The '*Nairobi package*' of 2017 has been marked as historic for Africa and particularly significant for many LDC. It includes six Ministerial Decisions on agriculture, especially on cotton and issues specific to LDC.⁵⁶³ Finally it is only as late as in the

560 Jonquieres Guy de and Mallet Victor, "Failure at Cancún spurs trade deals in Asia – With the Doha round at a halt, more bilateral and regional accords are being negotiated", Financial Times, 16th October, 2003.

561 July Package, see, https://www.wto.org/english/tratop_e/dda_e/meeto8_e.htm.

562 Bali Package, see, https://www.wto.org/english/news_e/news13_e/mc9sum_07dec13_e.htm.

563 Nairobi Package, see, https://www.wto.org/english/news_e/news15_e/mc10_19dec15_e.htm.

12th Ministerial Conference in 2022 at Geneva after 7 years that there were some directional outcomes based on consensus.

9.1.3 *Relation between Regionalism and Multilateralism with Reference to Articles XIV and XXIV of the GATT / WTO Agreement*

The founding members of the GATT⁵⁶⁴ clearly based the multilateral trade agreement on the practice of non-discrimination made effective through the principle of MFN, one of the founding pillars of GATT. But specific exceptions were made to allow CU and FTA under *Article XXIV*. Efforts were made to enable co-existence of regionalism and multilateralism curving out exceptions with checks and balance measures but there has always been a doubt as to whether both can function effectively while in co-existence. A preferential trade liberalisation model is fundamentally different from a model based on non-discriminatory trade liberalisation. In fact, FTA are two-faced, they support free trade by removing tariffs for member countries while imposing additional burden on non-members by initiating external tariffs against them.

Very often PTA takes the form of regional agreements because of certain common regional trade interests. It is noticed that the growth and development of regional organisations have increased to a great extent in the last few years as result of which there have been requests for GATT to examine their eligibility criteria. Earlier many developing countries availed the possibility to form regional agreements and be exempted under the S & DT that is allowed to LDC. But now such chances are less, even if they are permitted it is under *Article XXIV* like any industrialised country i.e. only if it is reciprocal and not one-way.⁵⁶⁵ Apart from *Article XXIV*, one needs to consider *Article XIV* of the GATT 1947 while analysing the clauses dealing with exceptions to non-discrimination since it is incorporated in the GATT 1994 Agreement.

More precisely these exceptions elaborate:

1. A contracting party which applies restrictions under Article XII or under Section B of Article XVIII may, in the application of such restrictions, deviate from the provisions of Article XIII in a manner having equivalent effect to restrictions on payments and transfers for current international transactions which that contracting party

⁵⁶⁴ At the time of signing of first GATT Agreement on there were 23 members, 30th October 1947.

⁵⁶⁵ Page Sheila, "The Integration of Regional Groups into Multi-Country Organisations", in Pieter van Dijk Meine and Sideri Sandro (eds.) "Multilateralism versus Regionalism", EADI, pg. 86, 1986.

may at that time apply under Article VIII or XIV of the Articles of Agreement of the International Monetary Fund (IMF), or under analogous provisions of a special exchange agreement entered into pursuant to paragraph 6 of Article xv.

2. A contracting party which is applying import restrictions under Article XII or under Section B of Article XVIII may, with the consent of the contracting parties, temporarily deviate from the provisions of Article XIII in respect of a small part of its external trade where the benefits to the contracting party or contracting parties concerned substantially outweigh any injury which may result to the trade of other contracting parties.
3. The provisions of Article XIII shall not preclude a group of territories having a common quota in the IMF from applying against imports from other countries, but not among themselves, restrictions in accordance with the provisions of Article XII or of Section B of Article XVIII on condition that such restrictions are in all other respects consistent with the provisions of Article XIII.
4. A contracting party applying import restrictions under Article XII or under Section B of Article XVIII shall not be precluded by Articles XI to XV or Section B of Article XVIII of this Agreement from applying measures to direct its exports in such a manner as to increase its earnings of currencies which it can use without deviation from the provisions of Article XIII.
5. A contracting party shall not be precluded by Articles XI to XV, inclusive, or by Section B of Article XVIII, of this Agreement from applying quantitative restrictions:
 - (a) having equivalent effect to exchange restrictions authorized under Section 3 (b) of Article VII of the Articles of Agreement of IMF, or
 - (b) under the preferential arrangements provided for in Annex A of this Agreement, pending the outcome of the negotiations referred to therein.

From the above it can be clearly stated that CU, RTA and/or FTA were encouraged on the grounds that there would be increased integration of free trade by removal of barriers to trade and as such would be supplementary to multilateral trade. An important requirement is that trade barriers against non-members of the FTA/RTA/CU are not raised in a manner to make trade more restrictive than before. Hence the moment existing members establish a regional group and impose a different level of tariff against non-members, if there is no effort

to impose an average tariff, non-members can claim compensation because of the raised tariff.⁵⁶⁶

If one carefully studies the relationship between regionalism and multilateralism in the light of the WTO Agreement, one question would invariably arise as to whether the RTA follow the rules set in by the WTO and to what extent the WTO rules themselves get adjusted to the RTA that are established. Joining the FTA might involve switching over from one country's existing laws to other partner member's laws, which is often an expensive process. In such scenario, countries prefer to have their own standards accepted by other countries rather than address the positive externalities. Obviously, the members with lesser negotiating power often succumb to the conditions laid down by the powerful members and accept conditions that they would not have accepted otherwise.⁵⁶⁷

For these reasons it is often argued that there should be additional criteria for members to churn out PTA and RTA to avoid it becoming a regional channel to protectionism. Here it must be noted that regionalism often creates inefficient trade diversions instead of reducing inefficient costs with tendencies to favour new trade partners within the bloc while raising trade barriers against non-members.⁵⁶⁸ To address such anomalies, generally it is accepted that these CU should be open-ended, allowing others to join. Further, they should be limited to specific geographical areas and established by parties that already have considerable economic integration and existing trade ties so that there is minimum trade diversion, if any. Finally, there should be not only cross-border trade but also sufficient flow of capital and technology.⁵⁶⁹ Technically CU, RTA and FTA may decide not to address exhaustion of IPRs and leave it to each member to decide which might seem compatible with the TRIPS agreement. However, if they practice regional exhaustion, as is the case with EC, there would be an inherent discrimination against parallel imports based on the country of origin as has been elaborated in earlier chapters.

566 Frankel Jeffrey with Stein Ernesto and Shang-Jin Wie, "Introduction to Regional Trading Arrangements" in "Regional Trading Blocs in the World Economic System", Institute for International Economics, Washington DC, pg. 3, October 1997.

567 Sideri Sandro, "GATT and the Theory of Intellectual Property", in Pieter van Dijk Meine and Sideri Sandro (eds.) "Multilateralism versus Regionalism" EADI, pg. 144, 1986.

568 Bhagwati Jagdish, "Getting to Free Trade: Alternative approaches and their theoretical rationale", Free Trade Today, Princeton University Press, pg. 110, 2002.

569 Hart Michael, "A Matter of Synergy: The Role of Regional Agreements", in Donald Barry and Ronald Keith (eds.) "Regionalism, Multilateralism and the Politics of Global Trade", pgs. 48–49, UBC Press Vancouver, Toronto, 1999.

9.2 The European Union, European Free Trade Association, European Economic Area and Patent Exhaustion

Patents granted by the European Patent Office (EPO) are rights in different countries in Europe, hence governed by the patent laws in those countries. Automatically the assessments of the validity of these patents are made under the substantive patent law in the relevant countries. In such situation often there are differences in assessment in one country and another leading to disputes based on validity resulting in conflicting litigation and fragmented decisions.⁵⁷⁰ The European regulation on ‘*Unitary Patent*’ will not only harmonise the different patent laws of the member states but moved from the dependency on case laws to codified regulation. The establishment of the Unified Patent Court, once functional, would further help in consistency and predictability of patent litigation especially in the area of validity issues and infringement.⁵⁷¹ At present, given the different national patent systems existing at parallel and applicants having the ability to file separately in a country or at the EPO, the system is all but harmonised.

Undoubtedly there have been significant efforts to harmonize patent protection both including prosecution and adjudication. Uniformity in patent exhaustion in EU has been spelled out in clear terms in *Article 6* that deals in ‘*Exhaustion of the rights conferred by a European patent with unitary effect*’⁵⁷² and further states,

The rights conferred by a European patent with unitary effect shall not extend to acts concerning a product covered by that patent which are carried out within the participating Member States in which that patent has unitary effect after that product has been placed on the market in the Union by, or with the consent of, the patent proprietor, unless there are legitimate grounds for the patent proprietor to oppose further commercialisation of the product.

However even with such definitive harmonisation, the European patent exercised through the EPO is still burdened with high transaction costs due to

⁵⁷⁰ Coyle Patrick, “Uniform Patent Litigation in the European Union: An Analysis of the viability of recent proposals aimed at unifying the European Patent Litigation System”, *Washington University Global Studies Law Review*, Volume 11 issue 1, pg. 180, (171–192), January 2012.

⁵⁷¹ Yarsky Joseph Kenneth, “Hastening harmonization in European Union Patent law through a preliminary reference power”, *Boston College International and Comparative Law Review*, Volume 40, Issue 1, pg. 168 (167–193), 2017.

⁵⁷² Regulation (EU) No. 1257/2012 of the European Parliament and of the Council. Available at, <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:361:0001:0008:en:PDF>.

multiple fees, translation costs among others. In the absence of a total seamless harmonisation of IPRs in the EU, exhaustion of IPRs is the single issue that has managed a uniform common EU position that got established as a result of harmonisation of the internal market. Now that the Protocol on Provisional Application of the UPC Agreement has been ratified on 19th January 2022, it is to be seen how harmonisation proceeds henceforth.

The intention to provide free movement of goods originating in the EU member States has been paramount right from its existence through *Article 28 to 37* of the Treaty on Functioning of the EU (TFEU). While *Article 28(1)* TFEU prohibits charges like customs duties and quantitative restrictions like quotas, *Article 34 and 35* TFEU imposes prohibition on measures that can have effect of quantitative restrictions. As a result, products legally manufactured in any of the EU Member State should not be restricted from any of the EU member's markets.⁵⁷³ However this was not the case in addressing exhaustion of patents to allow parallel imports. Due to lack of harmonised patent law in the EU, there were differences in members' treatment of exhaustion of IPRs too, but this was streamlined and harmonised by the ECJ.⁵⁷⁴ The court assessed whether there was need to restrict parallel imports to uphold patent rights of the owners and decided against such move. If parallel imports within the EU were restricted, the patents would act as non-tariff barriers to trade and become quantitative restrictions. To maintain balance between patent rights and movement of goods within the EC, community-wide exhaustion of patents was adopted.⁵⁷⁵ The reason in support of introduction of this hybrid exhaustion that blended international exhaustion within the CU while maintaining national exhaustion with outside the region has been explained in Chapter 3. In this section of the book the focus is on the evolution of this regional exhaustion mode through case laws as it stands today.

As elaborated in Chapter 4.3, Exhaustion of IPRs was first introduced in EU through trademark exhaustion in *Consten and Grundig v Commission*, where the Court emphasised on the distinction between 'existence' and 'exercise' of intellectual and industrial property rights and referred to *Article 81 and 82* of the EC Treaty that adhered to the creation of a common market.⁵⁷⁶ We have

573 Free movement of goods, Fact Sheets on the European Union – 2018. Available at, http://www.europarl.europa.eu/ftu/pdf/en/FTU_2.1.2.pdf.

574 Burnside Michael, "The Community Patent Convention: Is it Obsolete in its Present Form", 8 EIPR, pgs. 285–289, 1992.

575 Bentley Lionell and Shaw Brad, "Intellectual Property Law", Oxford, pg. 616, 617, 2014.

576 Joined cases Nos. 56/54 and 58/64, *Establishments Consten S.à.R.L. and Grundig-Verkaufs-GmbH v. Commission of the European Community* (1966) ECR 299; Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61964CJ0056&from=EN>. See

noted earlier that the same reasoning of the common internal market superseding the possibility of enforcing IPRs to restrict parallel imports within the EU was extended to exhaustion of trademarks and copyrights in *Deutsche Grammophon* case.⁵⁷⁷ In this case too, the ECJ held that the trademarks and copyright owner exhausted its right to enforce further sale of the product with the sanctioned use of it and hinder free movement of the copyright product within the internal market.⁵⁷⁸

The first case related to patent exhaustion was *Centrafarm BV v Sterling Drug* related to the drug 'Negram', patented both in the UK and Netherlands by Sterling Drug.⁵⁷⁹ The same drug was 50% more expensive in Netherlands than in UK and Centrafarm bought it in the UK and then resold it in the Netherlands. Sterling Drug tried to stop the parallel import of the medicine by invoking its patent right. However, the Court relied on the mode of regional exhaustion and stated that the patent owner would not be able to restrict free movement of the concerned goods by invoking patent rights since he has exhausted these rights once he has put the product in the community market. The statement of the Court expressed the mode of regional exhaustion very clearly,

As far as the patent was concerned, the court stated:

- 4 This question requires the court to state whether, under the conditions postulated, the rules in the EEC Treaty concerning the free movement of goods prevent the patent holder from ensuring that the product protected by the patent is not marketed by others.
- 5 As a result of the provisions in the Treaty relating to the free movement of goods and in particular of Article 30, quantitative restrictions on imports and all measures having equivalent effect are prohibited between Member States.
- 6 By Article 36 these provisions shall nevertheless not include prohibitions or restrictions on imports justified on grounds of the protection of industrial or commercial property.

for detailed discussion, Renato Nazzini, "Parallel Trade in the Pharmaceutical Market – Current Trends and Future Solution", 26 (1) *World Competition*, pg. 60, (53–74), 2003.

577 Case No. 78/70, *Deutsche Grammophon Gesellschaft mbH v Metro-SB Grossmarkte GmbH & Co. KG*, 1971 ECR 487, 1971 CMLR 631.

578 Gold Michael, "European Patent Law and the Exhaustion Principle", *University of Chicago Legal Forum*, Volume 1992, Issue 1, pg. 442, 443, (441–456), 1992.

579 Case No. 15/74, *Centrafarm BV v. Sterling Drug Inc.*, 31st October 1974 [1974] 2 CMLR 480, [1974] ECR 1147, 6 IIC 102 (1975). Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61974CJ0015&from=EN>.

- 7 Nevertheless, it is clear from this same Article, in particular its second sentence, as well as from the context, that whilst the treaty does not affect the existence of rights recognised by the legislation of a Member State in matters of industrial and commercial property, yet the exercise of these rights may nevertheless, depending on the circumstances, be affected by the prohibitions in the treaty.
- 8 In as much as it provides an exception to one of the fundamental principles of the Common Market, Article 36 in fact only admits of derogations from the free movement of goods where such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter of this property.
- 9 In relation to patents, the specific subject-matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements.
- 10 An obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial property, of provisions laying down that a patentee's right is not exhausted when the product protected by the patent is marketed in another Member State, with the result that the patentee can prevent importation of the product into his own Member State when it has been marketed in another State.
- 11 Whereas an obstacle to the free movement of goods of this kind may be justified on the ground of protection of industrial property where such protection is invoked against a product coming from a Member State where it is not patentable and has been manufactured by third parties without the consent of the patentee and in cases where there exist patents, the original proprietors of which are legally and economically independent, a derogation from the principle of the free movement of goods is not, however, justified where the product has been put onto the market in a legal manner, by the patentee himself or with his consent, in the Member State from which it has been imported, in particular in the case of a proprietor of parallel patents.
- 12 In fact, if a patentee could prevent the import of protected products marketed by him or with his consent in another Member State, he would be able to partition off national markets and thereby restrict trade between Member States, in a situation where no such

restriction was necessary to guarantee the essence of the exclusive rights flowing from the parallel patents.

- 13 The plaintiff in the main action claims, in this connection, that by reason of divergences between national legislations and practice, truly identical or parallel patents can hardly be said to exist.
- 14 It should be noted here that, in spite of the divergences which remain in the absence of any unification of national rules concerning industrial property, the identity of the protected invention is clearly the essential element of the concept of parallel patents which it is for the courts to assess.
- 15 The question referred should therefore be answered to the effect that the exercise, by a patentee, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in that State, of a product protected by the patent which has been marketed in another Member State by the patentee or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the Common Market.⁵⁸⁰

Initially there was scepticism on the *Centrafarm* judgment on the differentiation between ‘*existence of rights*’ and ‘*exercise of these rights*’ and free movement of goods superseding the need for protection of industrial property but there was no turning back. One issue that came up was that of the parallel patent rights in different member countries and how the individual courts would interpret them. To be more precise, the proviso in *Article 36* refers to the existing laws on the subject in the members (‘*Bestandsgarantie*’ or guarantee of existence). Their application and implementation by concerned governments and courts as well as by private individuals and industry were a matter of concern although there was no doubt that it would not interfere in the legislative powers of the members to frame laws on the subject.⁵⁸¹ Distinctly being judge-made law, with time the regional exhaustion mode got accepted and well established through a series of ECJ decisions.⁵⁸²

To highlight the process of evolution of the regional exhaustion mode, the next important case decided by the ECJ on patent exhaustion was *Merck-I*

580 Case No. 15/74, *Centrafarm BV v Sterling Drug Inc.*, 31st October, 1974 [1974] 2 CMLR 480, [1974] ECR 1147, 6 IIC 102 (1975).

581 Beier Friedrich-Karl, “Industrial Property and the Free Movement of Goods in the Internal European Market”, 21 (2) IIC, pg. 147–148, 1990.

582 *Ibid* at 166, 282.

case.⁵⁸³ In this judgement, the court went ahead a step further to state that the patent owner will exhaust his/her rights with the first sale irrespective of whether such first sale had occurred under a parallel patent or not. Hence, even when the Dutch patent holder was not in a monopoly position which restricted his activity to make usual profit from the patent, the exhaustion principle was allowed because the Dutch patent holder had consented to the marketing of the medicine in Italy.⁵⁸⁴ However the court did not follow any stereotype in the issue of exhaustion and was careful enough not to allow the real issue of infringement of patents being allowed in disguise of exhaustion.

Here it is important to note that while regional exhaustion was promoted, the court did not in any manner exempt unauthorised manufacture of patented products, hence the protection of patents was never compromised. A case in point is *Park Davis and Co. v Probel* in which, the drug was patented in the Netherlands but was manufactured without the consent of the patent holder in Italy.⁵⁸⁵ The Dutch patent holder was able to restrict importation of the product from Italy since the patent exhaustion was not established. In this case the patent holder did not have the marketing consent from the patent holder hence the marketing of the source product was itself unauthorised.⁵⁸⁶ Later in *Pharmon v Hoechst* the ECJ made it clear that the doctrine of exhaustion would not apply in extra-ordinary market conditions like in cases when a compulsory licence was in operation. In this case it was emphasised that exhaustion doctrine would be applicable within the EC only in cases where the patent holder freely consents to the sale of the patented product and not when he is forced to do so.⁵⁸⁷

Later in another landmark case the ECJ stated that patents would exhaust once the patent owner puts the patented product in the market with his consent, even if the product was not patented in the country of marketing.⁵⁸⁸ In

583 Case No. 187/80, *Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exier*, July 14, 1981, [1981] ECR 2063, 13 IIC 70 (1982). Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61980CJ0187&from=EN>.

584 Alexander Willy, "Exhaustion of Trade Mark Rights in the European Economic Area", 24 E.L.R., pg. 7, Sweet, Maxwell and Contributors, 1999.

585 Case No. 24/67, *Parke Davis and Co. v Probel, Reese, Beintema-Interpharm and Centrafarm*, *Gerechtshof's-Gravenhage-Netherlands*, 1968, *Beintema-Interpharm and Centrafarm (Policy of the EEC)* [1968] EUECJ R-24/67 (29 February 1968). Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61967CJ0024&from=LT>.

586 Brainbridge David, "Intellectual Property", Longman, 5th edition, pg. 427, 2002.

587 Case No. 19/84, *Pharmon BV v Hoechst AG*, ECR 2281 (1985). Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61984CJ0019&from=EN>.

588 Joined cases, C 267/95 and C 268/95, *Merck & Co. Inc., Merck Sharp & Dohme Ltd. and Merck Sharp & Dohme International Services BV v Primecrown Ltd., Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd. and Beecham Group PLC v Europharm*

this case, the pharmaceutical product was patented in the UK whereas there was no patent production available for pharmaceutical products in Spain and Portugal at that time (Spain and Portugal were not member of the EC at that time). The medicine was cheaper in Spain and Portugal than in England prompting a parallel trader to import the cheaper pharmaceutical product to England for re-sale in Portugal and Spain. Since these two countries were in the process of joining the EU, under the Acts of Accession to the EC, they were allowed to introduce pharmaceutical patents within three years, hence the concerned pharmaceutical products were patentable in three years.⁵⁸⁹ There was confusion among the parties as to the calculation of three years of the patent to determine the effective date of exhaustion. Whether the three years was to be calculated once such product became patentable, or the three years were to be calculated from the end of the calendar year.⁵⁹⁰ The patent holder challenged the applicability of the principle of free movement in this case since there was no patent in these two countries from where the pharmaceutical product was imported. The patent holder argued that the case was like that in *Merck v Stephar* where the patent was not functional due to issuance of CL.⁵⁹¹ The parallel trader tried to defend international exhaustion based on the fact that the patent owner had put the product in the Portuguese and Spanish market under free market conditions and was not forced to put it on the market unlike in *Merck v Stephar*.⁵⁹²

The ECJ held that the three years period would be considered from the specific time when the drugs became patentable and not from the end of the calendar year. Further, the Court emphasised on its earlier judgement in *Merck v Stephar* on the free movement of goods within the common market and stated that the patent holder had freely sold the product in Portugal and Spain so the exhaustion principle should be applicable, thus allowing re-importation.⁵⁹³ Irrespective of whether the product was patented in the country of import the rights existed in UK hence once the UK owner marketed it, it was considered

of Worthing Ltd., ECR I 6285 (1996). Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61995CJ0267&from=EN>.

589 Ibid at 584.

590 Glynn Dermot, "Article 82 and Price Discrimination in Patented Pharmaceuticals: the Economics", 3 *European Competition Law Review*, pg. 134 (134–142) 2005.

591 *Merck v Stephar*, Case No. 187/80, dated July 14, 1981, [1981] ECR 2063, 13 IIC 70 (1982).

592 Campolini Manuel, "Parallel Import of Pharmaceutical Products within the European Union: Could Adalat be a Bacon in the Dark for the Innovative Industry?", 1 *International Trade Law Review*, pg. 31, 2002.

593 Case No. 19/84, *Pharmon BV v Hoechst AG*, ECR 2281 (1985). Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61984CJ0019&from=EN>.

as exhausted. If the patented medicines were manufactured in Portugal and Spain given the absence of patents in these countries, those products would have been barred from re-importation to UK as they would have been considered counterfeits.

Although exhaustion of IPRs in the EU was established through judicial pronouncements and subsequently there were no statutory changes made, there were efforts to change the practices through policy interventions. The European Parallel Importers' Coalition (EPIC) tried to influence the European countries to introduce international exhaustion in trademark law. They solicited international exhaustion of trademarks on grounds that previous to 1989, it was possible to import original IP protected products from low-price markets and sell them in the common market at low price benefiting consumers.⁵⁹⁴ The efforts to introduce/re-introduce international exhaustion and allow parallel imports in the area of trademarks continued but the industrial lobby of IP holders managed to successfully influence the European Parliament (EP) not to accept any such request and such attempt was aborted.⁵⁹⁵

Another early case reflecting tension between *Article 28* and *Article 30* is *Generics v Smith Kline & French Laboratories*.⁵⁹⁶ In this case, Smith Kline & French Laboratories Ltd. (SKF) held the patent for the pharmaceutical drug 'Cimetidine' in Netherlands while a third party applied for marketing authorisation for Cimetidine with the Dutch Assessment Board for Medicinal Products (DABMP). Authorisation was granted after the submitted samples of the drug were checked. The authorisation was assigned to Generics BV shortly before the expiry of the patent. SKF moved a motion for injunctive relief before the Court and was granted an ad-interim injunction effective for 14 months from the expiry of the patent in order to restrict Generics BV from selling or distributing the drug in any manner. In this decision of the Dutch Court, the patent holder could restrict others from selling the drug Cimetidine after the expiry of the patent. It is interesting to note that even when the medicine was already in the other EU markets and neither the *Dutch Patent Act of 1977* nor the EPC treated the issue of obtaining authorisation as an infringement, the medicine could not be imported to Netherlands for sale. One could consider that such

594 Position Paper of The European Parallel Importers Coalition (EPIC), "The Case for re-introducing Global Trademark Exhaustion in EU legislation", dated January 2001.

595 Ibid at 593.

596 *Generics BV v Smith Kline & French Laboratories Ltd.*, RPC 801 (1997). Available at, <http://curia.europa.eu/juris/showPdf.jsf?jsessionid=9ea7d2dc30dbc81efbb3c3ea4e3e9551d7fed674088.e34KaxiLc3qMb40RchoSaxqTbNno?text=&docid=100690&pageIndex=0&doclang=en&mode=req&dir=&occ=first&part=1&cid=18338>.

restriction would violate *Article 28* of the EC Treaty and act as quantitative restriction on importation. However, the ECJ allowed this restriction and held that it was justified to restrict the use of samples to obtain authorisation under *Article 30* of the EC Treaty, since it was to be treated as '*specific subject matter*' of the patent.

In another case, *Karate*, Der Bundesgerichtshof (the German Federal Court of Justice) considered the issue of exhaustion in the light of the EC Treaty. In this case the concerned product was a pesticide named '*Karate*' which enjoyed German and European patent for the process of manufacturing its ingredient '*lambda-cyhalothrin*' by the plaintiff. The defendant bought the pesticide containing '*lambda-cyhalothrin*' from a French company 'S' and sold it under the name '*Orefa Lambda-Cyhalothrin 5 EC*'. The plaintiff alleged infringement of its patent and initiated an action against the defendant. In defence, the defendant pleaded exhaustion of rights on grounds that one of the three shareholders of the French company that supplied the patented product was one of the plaintiff's authorised dealers for the product in France. While interpreting the exhaustion issue as it applied to the EEA, the court acknowledged that under *Article 30* (previously *Article 36*) of the EC Treaty all quantitative restrictions on imports and all measures having same effect were also prohibited.

The court further acknowledged that if the patent holder could restrict parallel import of the patented product from another member, the patent holder would be able to partition national markets with EEA and thus be able to restrict trade between members even when such restriction of parallel imports would not be necessary to protect the patent rights.⁵⁹⁷ In this case, the court opined,

- I. the defendant failed to establish that the pesticide sold by the defendant was the same product that had been placed in the EEA market by the plaintiff or its licensee,
- II. The fact that the defendant bought the patented product from a supplier based in France did not prove that the supplier had sourced the product from the plaintiff and not from outside the EEA (if it was from outside the EEA then defence of exhaustion would not stand ground).
- III. The defendant did not prove that the concerned product came from the same stock that the plaintiff sold in France through its subsidiary.

597 Decision on '*Karate*' of the German Federal Supreme Court (Bundesgerichtshof) dated 14th December, 1999, Case No. X ZR 61/98. See detailed discussion of the case in English in 32 (6) IIC, pg. 687 (685–693), 2001.

The court examined the defendant's contention that at least one of the three shareholders of the French company 'S' (which supplied the patented product) was one of the plaintiff's authorised dealers for the product in France and could not find it reasonable. The court relied on the simple logic that it was obviously economical to buy goods directly from the supplier instead of paying extra commission to an agent. In this case instead of buying the product directly from the authorised supplier, the defendant bought it from 'S' which would be more expensive unless the product was sourced from outside the EEA at a cheaper price. Here the court also highlighted the fact that the plaintiff had already been taking legal action against two enterprises affiliated to the defendant's suppliers for placing its patented product in the community market without its consent. Since the defendant failed to prove these fundamental requirements, the appeal brought in by the defendant was rejected, although this did not invalidate regional exhaustion.

In another case of Bayer AG, parallel imports of the medicine '*Adalat*' were reported from Spain and France and to control and limit the supply of the medicine, Bayer AG stopped the supply of the medicines to their wholesalers in these two countries.⁵⁹⁸ The wholesalers complained to the Commission that through the wholesaler agreement in Spain and France, Bayer AG had imposed on them an export ban hence restricted free movement of products. The Commission found Bayer AG in violation of *Art 101(1) TFEU* and based on the earlier case of *Merck and Beecham*, opined that protection of parallel imports is important in all circumstances irrespective of the rights of even the members to regulate the price of the products (e.g. through CL, price caps, etc.). On appeal initially before the General Court and later before the ECJ the Commission's decision was overturned. It was held that it could not be presumed that Bayer AG did anything to stop free movement of goods. Its decision to stop supplying of the patented products to its authorised distributors was not in any arrangement with the distributors but unilateral, hence within its legitimate right to decide where it would market and where it would not.⁵⁹⁹

GlaxoSmithKline (GSK), another important case few years later, was also contested right up to the ECJ. In this, GSK had notified the Commission a dual-pricing scheme for wholesalers determining whether the medicine was

598 Joined Cases Nos. C-2/01P C-3/01P, *Bayer AG v Commission of the European Communities* (T-41/96) [2000] E.C.R. II-3383; [2001] 4 C.M.L.R. Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:62001CJ0002&from=EN>.

599 Tsouloufas Georgios, "Limiting Pharmaceutical Parallel Trade in the European Union: Regulatory and Economic Justifications", 36 *E.L. Review*, pg. 398 (385-404), June 2011.

reimbursable under the Spanish regulators. However, it was devised to restrain possibilities of parallel trade and was assessed by the Commission as to whether it had anti-competitive effect and also whether it restrained free movement. The Commission held that GSK's dual-pricing scheme was intended to restrain free movement of the products and impede competition in the market that was challenged before the Court of First Instance (CFI).⁶⁰⁰ In an interesting note like the Bayer AG case, the CFI held that the actions of the IP holder is not just to be assessed as to whether there was attempt to limit pharmaceutical parallel trade and partition the common market but beyond. It is important to establish that there were efforts to restrain competition in the market in any manner that the end consumers would be negatively affected. Based on its assessment that given the medicines were subjected to prevalent price regulation mechanisms, it could not be taken for granted that parallel imports would reduce price of the medicines in the hands of the customers, the CFI rejected the Commission's findings.⁶⁰¹ The decision of the CFI was challenged before the ECJ where it held that the dual-pricing agreement had specific anti-competitive element that would have restrained the end consumers from benefiting from parallel importation. The agreement was clear that the restrain on parallel imports and the market segregation was intentional and was not done to promote technical or economic progress in any manner.⁶⁰²

One of the recent cases on exhaustion dealing with used software has been of significant interest both to the software programmers as well as traders in software programmes. Although it is based on copyright exhaustion, its ramifications on patent exhaustion could be similar. In the matter of *Usedsoft v Oracle*, the globally known software developer Oracle was granted an injunction by the 'Landgericht München' (Munich Regional Court) restraining Usedsoft, a reseller of used software from reselling Oracle software in Germany. On failing to obtain a hearing on appeal by the 'Oberlandgericht München' (High Court of the Region), Usedsoft appealed before the 'Bundesgerichtshof' and managed to obtain a stay order over the proceedings until three questions posed before the ECJ were answered for preliminary ruling.⁶⁰³ In essence the main query

600 Ibid at 592.

601 Case No. T-168/01, *GlaxoSmithKline Services Unlimited v Commission of the European Communities*, [2006] E.C.R. II-2969; [2006] 5 C.M.L.R. Available at, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62001TJ0168&from=EN>.

602 Joined Case Nos. C-501/06 P, C-513/06 P, C-515/06 P, *GlaxoSmithKline Services Unlimited v Commission of the European Communities*, E.C.R. I-9291, 2009.

603 Case No. C 128/11, *Usedsoft GmbH v Oracle International Corp*, 3 C.M.L.R. 44, 2012. Available at, <http://curia.europa.eu/juris/document/document.jsf?docid=124564&doclang=EN>.

was whether software distribution through the online mode came under the purview of exhaustion considering the strict norms of distribution usually placed in the distribution contract. It was also asked whether the first authorised acquirer could further distribute the programme based on the doctrine of exhaustion and if so, whether the acquirer of the used software was also its lawful acquirer with authority to distribute it further.

The case also touched upon the exhaustion of rights as elaborated in *Article 4(2)* of the Software Directive that clearly allows exhaustion of software programmes.⁶⁰⁴ Given the digital nature of the products, the ECJ assessed whether online distribution or sale would be considered equivalent to offline sales in terms of availability of the product offline. Considering the fact that the license is granted after payment of due remuneration and it is tied with the downloading of the software, the licensing was considered to exhaust the right.⁶⁰⁵ In other words, even if the software developer downloaded the programme online from the website and did not buy it in hard form e.g. CD-ROM, etc., it would trigger exhaustion within the region. The relevancy of the case in this book is whether such exhaustion as applied in case of copyright products read with *Article 4(2)* of directive on computer programme for patented products. The question is, if these software programmes qualified for patents on computer implemented inventions (CII), would they have exhausted too. Here one needs to understand that the software directive is specific to copyrights hence there is absolute clarity but in case of patents, the exhaustion issue would need to be ascertained independent of the software code and that would not necessarily foreclose exhaustion. In case of patent exhaustion in case of CII, it is important to note that as usually the case, they are method and device patents hence in absence of any instance of exhaustion of method patents the jurisprudence in this area is yet to evolve.

The most important factor in relation to exhaustion of IPRs in the EC is clearly established as regional exhaustion where it will exhaust if the IP product is within the CU and would not exhaust if it is from outside the CU. However, it also raises questions on how it follows such exhaustion based on

604 Article 4(2) of Directive 2009/24 on the legal protection of computer programs state, "*The first sale in the Community of a copy of a program by the right-holder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.*"

605 Savic Masa, "The Legality of Resale of Digital Content after UsedSoft in Subsequent German and CJEU Case Law", 37 European Intellectual Property Issue 7, pgs. 414, 415, (414-429), 2015.

the principles of free trade while it does not follow international exhaustion, which is based on same principles of free trade and market integration.⁶⁰⁶

9.3 North American Free Trade Area (NAFTA), United States Mexico Canada Agreement (USMCA) and Patent Exhaustion

9.3.1 *NAFTA: Historical Perspective and Evolution*

The development of NAFTA was not based on independent aim of regional integration but practically to counter the European trade bloc. In 1982 USTR Mr. William Brock met with strong opposition from the Europeans, which stalled any possibility of having a new round of trade ministerial under the GATT. The USTR wanted to show that US was not dependent on the outcome of multilateral trade talks and as a result of the failure in Geneva, the US-Israel FTA and the Caribbean Basin initiative were negotiated at bi-lateral and regional level. Subsequently the idea of NAFTA also gained importance as a tri-lateral agreement.⁶⁰⁷

The idea of having a trilateral economic arrangement was first mooted by Mr. Ronald Reagan, Presidential contender from the Republican party in 1979 in the US but Canada and Mexico initially rejected the idea. However, after the global economic recession in 1981–82 there was pressure from the business communities in both the countries and finally the idea was given serious consideration by the Mulroney government in Canada in 1985. After two years of negotiations the two countries formed the Canada-US Free Trade Agreement (CUSFTA) with the intention of removing tariffs and within ten years, trade in agriculture and financial services were liberalised.

On the other side, Mexico joined the GATT in 1986 and gradually opened up towards multilateral trade with the US. This was the key to NAFTA since negotiations began in June 1991. As a result, after August 1992 the provisions of the CUSFTA were extended to Mexico thus covering three countries – US, Canada and Mexico.⁶⁰⁸ President George Bush (I) tried to move on with the formal

606 Rognstad Old-Andreas, “The exhaustion/competition interface in EC 1a – is there room for a holistic approach?”, in Drexel Josef edited, “Research handbook on Intellectual Property and Competition law”, Edward Elgar Publishing Ltd., pg. 3, 429, 430, (427–450), 2008.

607 Mckinney Joseph, “NAFTA’s effects of North American Economic Development: A United States Perspective” at the conference on, “NAFTA and the Future of North America: Trilateral Perspectives on Governance, Economic Development and Labour”, University of Toronto, 7th February 2015.

608 Ibid at 548, pgs. 12, 13.

formation of NAFTA but was not very successful and only later in 1993 President Bill Clinton with the aid of proactive USTR Carla Hills, was able to close the negotiations resulting in the formal functioning of NAFTA in January 1994. The Agreement established rules governing agriculture, energy, goods and services, IP, government procurement, etc. and a binding dispute-settlement process.

9.3.2 *NAFTA: Legal Rules on Intellectual Property Rights and Patent Exhaustion*

Issue of IPRs and its laws are covered under Chapter 17 of the NAFTA where the clauses of the Agreement on IPRs reflect the principal of NT in *Article 1708*, similar to that of the TRIPS. Further, like the TRIPS, NAFTA incorporates and applies pre-existing international treaties and conventions on IPRs like the Geneva Convention, Bern Convention, Paris Convention and others. It cannot be ignored that rules on IPRs in the NAFTA were negotiated specifically based on the Dunkel Draft that was later largely adopted as text of the TRIPS Agreement. Hence it can be said that TRIPS had direct influence in shaping the IPR provisions of NAFTA.⁶⁰⁹ As far as the rules on IPRs in the NAFTA are concerned, Mexico had already changed its laws in line with that of USA, Canada needed to modify its IP laws.⁶¹⁰ Although both Canada and US still needed to change their laws on IPRs in compliance with the TRIPS Agreement.

It is worth noting that Mexico, confident about its strengths of comparative advantage in production and aware of market segmentation issues, preferred regional exhaustion of IPRs but due to US resistance succeed in thwarting efforts to establish regional exhaustion. It was very clear that the US did not intend to establish a regional agreement that would result in a common market like the EU.⁶¹¹ The interest was to benefit from the low cost of production in Mexico and the markets of all the three countries without making it a boundary-less common market.

As far as the issue of exhaustion of IPRs is concerned, although the practice of international exhaustion in trademarks was very much prevalent in the three member countries of NAFTA, no mode of exhaustion in any field of IPRs was adopted. Canada continued following international exhaustion in all its

609 Villarreal Angeles and Fergusson Ian, "NAFTA Renegotiation and Modernization", Congressional Research Service, pg. 21, 27th February 2018.

610 Condon Bradley, "NAFTA, WTO and Global Business Strategy – How AIDS, Trade and Terrorism Affect Our Economic Future", Quorum Books, pg. 116, 2002.

611 Calboli Irene, "Trademark Exhaustion and Free Movement of Goods: A Comparative Analysis of the EU/EEA, NAFTA and ASEAN", Pg. 29, No. 25 Transatlantic Technology Law Forum, 2016.

IPRS. E.g. patents, trademarks, copyrights, designs, plant breeder's rights etc. but that was not installed in NAFTA similarly the other two continued with their own practices of exhaustion. One might argue that there is an express provision in case of Copyrights that may read as restricting international exhaustion in case of copyrights in Canada.⁶¹² However the Canadian courts have interpreted it based on the doctrine of international exhaustion in a manner supportive of free movement of goods into Canada.⁶¹³ In Canada, based on the provisions of statutory abuse in *Section 70*, international exhaustion would apply even to patents that are subject to CL.⁶¹⁴

Considering that NAFTA and TRIPS were negotiated nearly at parallel, the harmonised bottom line of high level of protection of IPRS was already established through TRIPS hence NAFTA already had high standards of IPR protection. On the issue of exhaustion of IPRS, we see the similarity between TRIPS and NAFTA since both remained silent on it. We find Mexico preferring regional exhaustion and Canada practicing international exhaustion nationally, while US courts followed implied license and its government preferred national exhaustion. With the large number of IP-centric multinationals in US interested in NAFTA markets, US preferred IPRS with either national exhaustion or without any specific exhaustion regime. We will notice that with time when new technologies evolved and demands of even higher protection started reverberating, US tried to push more for national exhaustion.

Catering to such demands, the negotiating pattern of US witnessed increasing influence of TRIPS-Plus provisions in FTA negotiations.⁶¹⁵ As a result US has pushed for far more extensive standards than TRIPS for protection and administration of IPRS irrespective of the fact that its own courts, including

612 *Section 27.1 (1)* of the Canadian Copyright Act expressly prohibits the importation of books without the consent of the copyright owner even where the books were produced in another country with the consent of the copyright owner, where the importer knew or should have known would infringe copyright if made in Canada.

613 The Canadian Federal Court of Appeal in trademark case, *Smith & Nephew Inc. v Glen Oak Inc.*, (1996) 68 C.P.R. (3d) 153, before the Supreme Court of Canada in patent case, *Eli Lilly and Co. v Novopharm Ltd.* (1998), 80 C.P.R. (3d) 321 at 352.

614 *Sections 65–71* provides the statutory abuse provisions and *Section 70* treats a compulsory license exactly in the same way as a voluntary license and thus subject to all patent doctrines that would be normally be applicable to patents in general.

615 Bryan Mercurio, "TRIPS-Plus Provisions in FTAs: Recent Trends", The Chinese University of Hong Kong, pg. 220, November 2006. Available at Researchgate, https://www.researchgate.net/publication/228154939_TRIPS-Plus_Provisions_in_FTAs_Recent_Trends.

the apex court has repeatedly decided in favour of international exhaustion or cases of implied license.⁶¹⁶

9.3.3 *USMCA: Background and Evolution*

The USMCA or the United States-Mexico-Canada Agreement replaced the NAFTA in 2020 with an intent of better regional integration between the three countries.⁶¹⁷ It is interesting to note that although the NAFTA was created to facilitate inter-country trade in the region, it was not aimed at regional integration like the European common market. However gradually since its inception in 1994, in more than two decades, there has been impressive regional integration that helped the three countries' trade interests.⁶¹⁸ At the same time there has been significant changes in different factors that influence multilateral trade whether in terms of technological advancement, sustainability issues like environment or security issues as trade over the air has increased.⁶¹⁹ The NAFTA however did not have any sunset clause based on achievement of its goals or any provision for its structural update which made many of its regulation either redundant or obsolete. While the integration between the three countries had witnessed positive gains, there were many areas that needed significant updates.

With an aim to address the updates the countries started re-negotiating NAFTA from May 2017 until 2018 when it was signed and finally came into effect on 1st July 2020. The USMCA came into effect at a time when the COVID 19 pandemic had already shrunk global trade.⁶²⁰ The USMCA is actually an update of NAFTA hence it is based without changing some of the core components. However, considering developments in number of areas, it has made considerable changes in IPRs and contemporary issues like digital trade and cross-border data flows apart from a completely new chapter on agriculture.

616 Drahos Peter, Lokuge Buddhima, Faunce Tom, Goddard Martyn and Henry David, "Pharmaceuticals, Intellectual Property and Free Trade: The Case of the US-Australia Free Trade Agreement", 22 *Prometheus*, pg. 243, 249, 250, (243–257), September 2004. Available at, <https://law.anu.edu.au/sites/all/files/users/u9705219/236-artprometheusfta.pdf>.

617 <https://www.trade.gov/usmca>.

618 Robertson Raymond, "Why we need the USMCA? (The Agreement formerly known as NAFTA)", Vol. 9, Mosbacher Institute, Issue 5, November 2018. Available at, <https://oaktrust.library.tamu.edu/bitstream/handle/1969.1/172747/V9-5%20Why%20We%20Need%20USMCA%20NAFTA.pdf?sequence=1&isAllowed=y>.

619 Gagne Gilbert and Rioux Michele, "Digital Trade", Springer, pgs., 103, 104, (99–106), 2022. Available at, https://www.academia.edu/73049957/Digital_Trade.

620 See, <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement>.

It also addresses tariff issues in another crucial area – raw and refined oil and gas products where it maintains a tariff-free treatment within the parties.⁶²¹ As mentioned, the USMCA changed number of rules and that included the rules on IPRS.

9.3.3.1 USMCA: Legal Rules on Intellectual Property Rights and Patent Exhaustion

Protection of IPRS have been revamped on many fronts keeping pace with the technological developments and said to be TRIPS compliant, most of the new or updated provisions are TRIPS plus in nature. For example, the minimum protection of for industrial designs under USMCA is 15 years while in TRIPS it is 10 years. For Copyrights it is life of author plus 50 years or 50 years from the date of publication wherein it is for life of author plus 70 years or date of publication plus 75 years. Interesting to note that the copyright protection in Canada is for life of author plus 50 years and Mexico it is 100 years, both after life of author or from date of publication while USMCA accords national treatment on copyrights.

Extension of patent term to accommodate regulatory delays or delays in patent office a demand by the pharmaceutical industry since a very long time has been accommodated. Similarly Trade Secrets which have not been elaborated much in the TRIPS have been made stringent under the USMCA. However, amidst many new inclusions and modifications some in a TRIPS plus manner, there has been no change in the mode of exhaustion practiced under NAFTA and now under USMCA. *Article 20.11* states,

Nothing in this Agreement prevents a Party from determining whether or under what conditions the exhaustion of intellectual property rights applies under its legal system. (It adds a footnote: “For greater certainty, this Article is without prejudice to any provisions addressing the exhaustion of intellectual property rights in international agreements to which a Party is a party.”)⁶²²

621 Anderson, Bakst, Burton, Griffith, Gatsuo, Grezler, Haislmaier, Katz, Loris, O’Quinn and Roberts, “An Analysis of the United States-Mexico-Canada Agreement”, Whiting K. Tory and Beaumont-Smith Gabriella eds., Backgrounder No. 3379, The Heritage Foundation, pgs. 4–6, 28 January 2019. Available at, https://www.heritage.org/sites/default/files/2019-01/BG3379_0.pdf.

622 USCMA Chapter 20: Intellectual Property Rights, <https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/20%20Intellectual%20Property%20Rights.pdf>.

9.4 Association of Southeast Asian Nations (ASEAN) and Patent Exhaustion

Many of the East Asian countries forming the regional bloc ASEAN have witnessed impressive industrial achievement.⁶²³ There has been employment creation and development to the extent that many Asian countries came to be known as the Asian tiger economies. However, a careful analysis will show that even when there has been some considerable industrial progress in these nations, the input of these countries towards indigenous research and development-based inventions and innovations is insignificant.⁶²⁴

Creation of IP assets have been weak in the region and thus patents have not gained the importance that many industrialised nations of the west have witnessed. It is only in the recent past that some ASEAN countries like Singapore and Malaysia have been able to contribute towards the total patent statistics largely because of their microelectronics industry.⁶²⁵ This has contributed towards an increasing trend in patent-based innovation in the region since investment in production and trade of patented products have increased.⁶²⁶

Traditionally most of these ASEAN countries followed patent law that was established by their colonial rulers but with the advancement of science and technology in the ASEAN countries and global investments from industrialised countries, independent patent regimes were established. Their involvement in multilateral trade also increased their need to ascertain a definite policy on IPRs catering to their development. Moreover, there have been efforts to harmonise the IP laws of the ASEAN countries through compliance to different international agreements (e.g. TRIPS). In addition, the internal harmonisation of IP laws under the ASEAN Framework Agreement on IP Cooperation started in 1994 and the Hanoi Plan of Action of the ASEAN Summit was put in place in 1998.⁶²⁷ Issues that were taken up were mainly enforcement related rather

623 There are ten member countries forming ASEAN. Prominent among them are six countries namely, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The other four members are, Brunei Darussalam, Cambodia, Laos and Myanmar.

624 Lam N.V., "A perspective on Entrepreneurship, Intellectual Property Creation, Enterprise development and Competitiveness in ASEAN" Socio-economic Analysis Section, Poverty and Development Division, UNESCAP, pg. 78 (75–91) 2005.

625 During the period 1997–2001, 872 patents were registered at the United States Patent Office to Singapore Residents and 151 to Malaysian residents.

626 Ibid at 242, pgs. 54, 55.

627 Weeraworawit Weerawit, "The Harmonisation of Intellectual Property Rights in ASEAN", in C. Antons, M. Blakeney and C. Heath (eds.), "Intellectual Property Harmonisation Within ASEAN and APEC", Kluwer Law International, pgs. 113–114, 2004.

than those related to multilateral or regional trade, hence exhaustion never found a place. The ASEAN countries established their own exhaustion policy independent of the countries' membership in the association.

After significant efforts, finally in 2015 the ASEAN Economic Community (AEC) was established mainly to fructify the region as a single market.⁶²⁸ The main aim was to remove trade barriers and facilitate free movement of goods within the member countries' markets. However, given the fact that the members address the exhaustion issue nationally, there is lack of uniformity among the member countries on it.

9.5 Gulf Cooperation Council (GCC) and Patent Exhaustion

The Gulf Co-operation Council (GCC) was formed on 25th May 1981 and they introduced the model patent law in December 1992, which was later revised in December 1999 and adopted by the CGC member countries.⁶²⁹ Membership of GCC includes United Arab Emirates, Kingdom of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, States of Qatar and Kuwait, all predominantly Arab States.⁶³⁰ The Middle Eastern region, although majorly influenced by Islamic laws, it also has pockets of exception as Jewish religion exists at parallel. Further, Jews, Arabs, Persians, Turks forming varied cultural background have influenced rights over creativity with variation. Amidst such a mosaic, the efforts of creating an internal common market is witnessed among Arab States hence subject of this study.

Historically one may draw parallels of IP protection with the administration of authorship rights and moral rights under Sharia (Islamic) law in the Arab States. Arguably there are two schools of thoughts among Islamic scholars, one is of the opinion that Sharia covers only tangible objects and nothing intangible and the other argues that nothing in the Sharia is against protection of IPRS. The former highlights that there is nothing elaborated in the Quran, Sunnah or interpretations of Islamic jurists that accorded any sort of protection to intangible object.⁶³¹ In fact like other oriental belief, they claim that

628 See <http://asean.org/asean-economic-community/>.

629 Abu-Ghazaleh (Intellectual Property Law firm), "Intellectual Property Laws of the ARAB countries", Kluwer Law International, pg. XI, 2000.

630 Gulf Cooperation Council membership details are available at, <http://www.gcc-sg.org/en-us/AboutGCC/Memberstates/pages/Home.aspx>.

631 Quran is the holy book for Muslims and Sunna are the traditions based on the hadith or sayings of the prophet. Elaborated further in, Bashar H. Malkawi, "Intellectual Property Protection from a Sharia perspective", 16 Southern Cross University Law Review, pg. 89,

since knowledge is not considered property, individual exclusive rights in the form of IPRS cannot be accorded. While the other school weighs in with majority that nothing in Sharia restrains protection of one's right, including IPRS and honouring contracts have always been Islamic, hence protection of IPRS cannot be said to be against Sharia.⁶³² The latter view is further established in the fact that material compensation for intangible property was relevant practice under Sharia. e.g. Califs bought important books and made copies of them after adequately compensating the authors.⁶³³

In the light of this historical perspective we will find that structured development of IPRS in the Arab region was witnessed only when international developments started with Tunisia being the first to join the Paris Convention in 1884 and Bern Convention in 1887 with Morocco, Lebanon and Egypt following.⁶³⁴ However the Arab States still did not join any of the international conventions on IPRS until as recent as 2000 and the revamping of their laws on IPRS and streamlining them mainly started with US pushing them towards WTO membership.⁶³⁵

The GCC members joined the Bern and Paris Conventions only post-2000.⁶³⁶ Aiming at establishing a common market and a monetary union within the GCC, in the area of IPRS too there have been efforts to harmonise laws. One of the distinct developments in the area of protection of IPRS was the adoption of unitary patent right covering all GCC countries. Considering the uniqueness of the influence of the Sharia and historical difference between experts some considering IPRS as legitimate while others as un-Islamic, there is an additional criterion for an invention to qualify for grant of patent other than

(87-121), 2013. Available at, <http://www.austlii.edu.au/au/journals/SCULawRw/2013/4.pdf>.

632 Raslan Heba, "Shari'a and the Protection of Intellectual Property – The Example of Egypt", 7(4) IDEA – The Intellectual Property Law Review, pg. 501, 502, (497–559), 2001. Available at, https://ipmall.law.unh.edu/sites/default/files/hosted_resources/IDEA/idea-vol47-no4-raslan.pdf.

633 Milani Alireza, "The Legitimacy of Intellectual Property Rights in the Light of Islamic Law (Sunni and Shia Fiqh)", 7(3) World Journal of Islamic History and Civilization, pg. 37, (37–46), 2017. Available at, [https://idosi.org/wjihc/wjihc7\(3\)17/1.pdf](https://idosi.org/wjihc/wjihc7(3)17/1.pdf).

634 Ibid at 630.

635 Carroll John, "Intellectual Property Rights in the Middle East: A Cultural Perspective", 11(3) Fordham Intellectual Property, Media and Entertainment Law Journal, pg. 568, (555–600), 2001.

636 Details of Berne and Paris Convention memberships of GCC States are available at, http://www.wipo.int/treaties/en/ShowResults.jsp?country_id=ALL&start_year=ANY&end_year=ANY&search_what=C&treaty_id=15&treaty_id=2.

'Novelty', 'Inventive Step' and 'Industrial Applicability', i.e. the invention needs to be in compliance with Sharia.⁶³⁷

Article 12 states,

2. Where the Patent subject is a product, the Patent owner shall have the right to prevent others from manufacturing, use, sale, offering for sale, or import of the product for such purposes, without his prior consent. However, where the patent subject is industrial process, he shall have the right to prevent others from actual use of the process. He shall also have the right to prevent others from use, and offering for sale, sale or import of at least the products directly obtained by using such process, for such purposes, without his prior consent.

The law does not provide any exception for import of patented products from outside GCC where it has been placed with prior consent of the patent holder. The language in Article 12/2 mandates '*prior consent*' of the patent holder confirming national exhaustion and restricting parallel imports. With a significant development the GCC abandoned the unitary patent right covering all GCC countries on 26th January 2021 and the amended patent law is functional from this date. After the amendment the filing of the patent can be through GCC Patent Office but the grant would need to be through each of the member states separately.⁶³⁸

9.6 Common Market of the South (MERCOSUR) and Patent Exhaustion

Established by the Common Market of the South (MERCOSUR) Agreement in 1991 by the Treaty of Asuncion, it is the largest internal of South America.⁶³⁹ Initially Argentina, Brazil, Paraguay and Uruguay became members and were later joined by Venezuela in 2012 (but suspended in 2016) while Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname are Associate Members.⁶⁴⁰ With the intention of creating a regionally integrated market for free movement

637 Holder Sara, "Gulf Co-operation Council Countries – Patent Landscape", Rouse The Magazine, 16th January 2018. Available at, <https://www.rouse.com/magazine/news/gulf-co-operation-council-countries-patent-landscape/>.

638 Information about the amendment of the Unitary Patent Regulation of GCC is available at, <https://www.gccpo.org/> and an English commentary in English at http://www.kadasa.com.sa/news/181?type=END_TO_UNITARY_PATENT_SYSTEM_IN_THE_GCC.

639 The Common Market of the South (MERCOSUR) Agreement is available at, <https://wits.worldbank.org/GPTAD/PDF/archive/MERCOSUR.pdf>.

640 Details of MERCOSUR is available at, <https://www.mercosur.int/en/>.

of goods and services among members their attempt has been to remove customs duties and non-tariff barriers to trade. At a macro level it aimed to coordinate sectoral and macro-economic policies to synergise foreign trade, agriculture, industry and other factors. With such broad aim, harmonisation of IPRs within the region was attempted but even the '*Harmonization of Intellectual Property Provisions in MERCOSUR on Trademarks, Indications of Source and Appellations of Origin*' was ratified only by Paraguay and Uruguay. The members of MERCOSUR are allowed to opt for any mode of exhaustion which has resulted in a mixed practice of exhaustion. At present Brazil and Venezuela follows national exhaustion while Argentina, Bolivia, Paraguay and Uruguay follow international exhaustion of patents allowing parallel imports from anywhere in the world.⁶⁴¹

9.7 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), IPRs and Patent Exhaustion

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was initially ratified between six countries Australia, Canada, Japan, Mexico, New Zealand and Singapore on 30th December 2018.⁶⁴² Later Brunei Darussalam, Chile, Malaysia, Peru and Vietnam joined with total members reaching 11 and most recently received request for accession from the United Kingdom. Covering nearly all sectors of trade, it is a FTAs allowed under the WTO regulatory regime, its intention is to eliminate or reduce barriers to trade in a transparent and consistent manner.⁶⁴³ IP in CPTPP has been elaborated in *Article 18*, a lot borrowed from the previous Trans-Pacific Partnership (TPP) which collapsed after US withdrew from it in 2017. *Article 18* links protection and enforcement of IPRs with technological innovation with transfer and dissemination of technology and accords NT to its members.

As far as exhaustion of IPRs are concerned, it allows its members to decide any mode that they consider fit.

641 Correa Carlos and Correa Juan, "Parallel imports and the principle of exhaustion of rights in Latin America", in Calboli Irene and Lee Edward (eds), "Research handbook on Intellectual Property Exhaustion and Parallel Imports", Edward Elgar Publishing Ltd., pages 199, 200 (198–225), 2016.

642 See, <https://www.mfat.govt.nz/assets/Trade-agreements/CPTPP/Comprehensive-and-Progressive-Agreement-for-Trans-Pacific-Partnership-CPTPP-English.pdf>.

643 See, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/index.aspx?lang=eng>; <https://www.dfat.gov.au/trade/agreements/in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership>.

Article 18.11: Exhaustion of Intellectual Property Rights – Nothing in this Agreement prevents a Party from determining whether or under what conditions the exhaustion of intellectual property rights applies under its legal system. The footnote to it states, “For greater certainty, this Article is without prejudice to any provisions addressing the exhaustion of intellectual property rights in international agreements to which a Party is a party.”⁶⁴⁴

9.8 Comprehensive Economic and Trade Agreement (CETA) and Patent Exhaustion

The Comprehensive Economic and Trade Agreement (CETA) is an FTA between the European Union and Canada which was signed by Canada on 30th October 2016 and approved by the European Parliament approved it on 15th February 2017. Considering that ratification is expected to be slow due to the large number of member countries of the European Union, CETA is provisionally applied since 21st September 2017.⁶⁴⁵ Interesting to note that even before it was ratified, Belgium challenged the legitimacy of its dispute settlement mechanism under EU law but was held valid by the ECJ.⁶⁴⁶ The agreement is far-reaching with very ambitious commitments both on goods and services. It covers issues like protection of environment, mitigation of climate change and labour rights, on which there has not been significant difference between the parties in the WTO. Binding on all the parties, the agreement has thirty Articles (also referred to as chapters) providing the edifice on which sensitive issues like rights of workers, food safety, etc. will depend.⁶⁴⁷

IP is covered under Article 20 elaborately in 50 sub-Articles and like some other FTAs, the intent is to develop regulations and standards that are consistent to EU and Canada to protect and enforce IP. *Article 20: 2* in defining the ‘*Nature and Scope*’ clearly mentions it to complement the TRIPS Agreement and that it does not create any obligation on distribution of resources between IP enforcement and enforcement of law in general. In *Article 20: 4* on ‘*Exhaustion*’, it states, ‘*This chapter does not affect the freedom of the Parties*

644 See <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/text-texte/18.aspx?lang=eng>.

645 See <https://ec.europa.eu/trade/policy/in-focus/ceta/ceta-explained/>.

646 See <https://www.lawsocieties.eu/viewpoint/the-ceta-opinion-of-the-cjeu-right-of-access-to-an-independent-tribunal-by-emily-hay/5067617.article>.

647 See <https://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/>.

*to determine whether and under what conditions the exhaustion of intellectual property rights applies.*⁶⁴⁸

648 See <https://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/>.

