

*Chapter 12*

# PROTECTION OF INTELLECTUAL PROPERTY

## OVERVIEW OF RULES

In today's economic environment, intangible assets are becoming increasingly important. These assets, which are the result of human intellectual creative activity such as invention, design, know-how, and artistic creation, are known as "intellectual property". Among the forms of intellectual property specifically entitled to legal protection are inventions, trademarks, designs, literary works, layout-designs of integrated circuits and trade secrets. As the volume of trade in goods and services involving intellectual property has increased greatly in recent years, the importance of the protection of intellectual property for the world economy has grown enormously. Inappropriate and insufficient protection of intellectual property can distort free trade.

In developing countries, the protection of intellectual property rights is often insufficient. For example, developing countries often limit protection to a very narrow subject area, or provide protection for only a short period of time, or lack strict enforcement. Some developed countries also have problematic intellectual property regimes that, for example, openly discriminate against foreign nations, provide excessive protection, or otherwise have regimes so different from those employed by the rest of the world that its effect is discriminatory.

To address the trade distorting effect these problems can cause, the WTO sought to establish an appropriate framework for the protection of intellectual property to bring greater order to international trade. A number of international treaties already form a common legal framework for the protection of intellectual property, including the Paris Convention, which entered into force in 1883 and covers patents, trademarks and other industrial property rights, and the Berne Convention, which entered into force in 1886 and covers copyrights. Recently, however, as countries pay more attention to the trade-related aspects of this subject, they have frequently placed intellectual property protection on the agenda of trade negotiations. Countries recognized that as many governments as possible should take part in framing an international agreement to establish standards on aspects of trade regarding the protection of intellectual property. As a result, GATT negotiators instituted negotiations on the Trade-Related Aspects of Intellectual Property Rights (TRIPS)—one of the most important new areas included in the Uruguay Round negotiations. A final consensus on the TRIPS Agreement was reached in Marrakesh in April 1994 and took effect on 1 January 1995.

## LEGAL FRAMEWORK

### *The TRIPS Agreement*

An outline of the TRIPS Agreement is provided in Figure 12-1. Although a few problems remain, the TRIPS Agreement, which became effective on 1 January 1995, establishes valuable standards for the trade-related aspects of protecting intellectual property. The significance of this agreement is manifold: (a) it covers the full range of protections afforded intellectual property; (b) it, in principle, raises the levels of protection from those in existing treaties like the Paris Convention and Berne Convention and obligates countries that have not joined these conventions to adhere to them; (c) it is the first treaty on intellectual property rights to explicitly mandate most-favoured-nation treatment; (d) it specifies substantial levels of protection and rights that WTO Members are obligated to guarantee in their domestic laws, and also contains detailed provisions on the procedures for enforcing rights should they be infringed; and (e) it contains dispute-settlement procedures.

Figure 12-1  
Outline of the TRIPS Agreement

<i>Scope of Coverage</i>	All legally-recognized intellectual property rights (copyright and related rights, patents, industrial designs, trademarks, geographical indications, layout-designs of integrated circuits and undisclosed information)
<i>Relation to Existing Conventions</i>	The TRIPS Agreement incorporates and improves upon protection levels of the Paris Convention (industrial property rights) and the Berne Convention (copyright). WTO Members who are not parties to the Paris Convention or Berne Convention will thereby be obligated to meet the standards of these conventions.
<i>Basic Principles</i>	The TRIPS Agreement requires national intellectual property regimes to provide most-favoured-nation (MFN) treatment and national treatment to the nationals of WTO trading partners. Bilateral agreements that provide higher protection than that found in the TRIPS must afford that same level of treatment to the nationals of all other WTO Members on a MFN basis. The TRIPS Agreement applies the national treatment exceptions found in the Berne and Paris conventions and the MFN exceptions found in international agreement and multilateral agreements.
<i>Levels of Protection (Standards)</i>	<p>In the area of copyrights and related rights, the TRIPS Agreement specifies the protection of computer programmes (protected as literary works under the Berne Convention) and rental rights.</p> <p>In the area of patents, the TRIPS Agreement establishes a wide definition of patentable subject matter and requires Members to introduce patent protection for products. As such, it does not allow for the exclusion of pharmaceutical products or foods from patentable subject matter. Protection shall be afforded for at least 20 years from the filing date of the application. The TRIPS Agreement also stipulates strict conditions on authorization of compulsory license. The TRIPS Agreement obligates signatories to provide the legal means to prevent unlawful geographical indication and additional protection for wines and spirits in relation to geographical indication. The TRIPS Agreement contains provisions governing the protection of trademarks, geographical indications, industrial designs, layout-designs of integrated circuits, and undisclosed information. It also contains rules on anti-competitive practices in contractual licenses.</p>
<i>Enforcement</i>	The TRIPS Agreement requires domestic procedures for enforcement to be fair and equitable. It provides for enforcement through the civil judicial process, through administrative procedures including border measures and administrative remedies, and through the criminal judicial process.

<i>Dispute Settlement</i>	WTO dispute settlement procedures shall apply to disputes under the TRIPS Agreement. Violations of the TRIPS Agreement may result in the suspension of tariff concessions or cross retaliation through the suspension of WTO benefits in another trade sector.
<i>Transitional Arrangements</i>	Developed countries have a transition period of one year from the date of entry into force of the WTO Agreement; developing countries and transformation countries have five years (until January, 2000); and least-developed countries have 11 years (until January, 2006) (Articles 65 and 66). Developing countries that do not provide product patent protection (e.g., for pharmaceutical products) are accorded an additional transition period of five years (ten years in total) for application of the provisions on product patents. The TRIPS Agreement also contains provisions that place the following obligations on developing countries apply themselves of a transitional period, from the date of entry into force of the Agreement: (a) to provide a means for filing application of product patent for pharmaceutical and agricultural chemical products (b) to grant exclusive marketing rights for pharmaceutical and agricultural chemical products that are the subject of a patent application under certain conditions.
<i>Amendment</i>	In principle, amendments to the TRIPS Agreement shall be governed by regular amendment procedures under the TRIPS Agreement. However, amendments serving the purpose of adjusting to higher levels of intellectual property rights protection achieved and in force in other multilateral agreement may, under certain conditions, be made through simpler procedures.

## RECENT TRENDS

### *Work in the Council for TRIPS*

The WTO Council for TRIPS held four formal meetings in 2000. The Council discussed notifications by WTO Members of changes to their national laws and regulations as required under the TRIPS Agreement, exchange of information on technical cooperation, reviews of the implementation of the TRIPS Agreement, and built-in agenda that was prescribed to be further discussed.

Regarding technical and financial cooperation, information was notified and circulated by 14 developed countries, including Japan, and seven international organizations including the World Customs Organization (WCO) to de-

veloping countries. In July 1998, the WTO and the World Intellectual Property Organization (WIPO) appealed to developing countries to acknowledge the importance of the implementation of the Agreement until the year 2000. In addition, these two organizations notified these countries that they are prepared to provide technical assistance for the implementation of the Agreement.

Reviews of the implementation of the TRIPS Agreement involve examining notified national implementing legislation, reviewing written questions by other Members and replies prior to the review meeting, and follow-up questions and replies during the review meeting. This implementation reviews were conducted from 1996 toward the developed country members and those developing country members that had finished implementing their domestic legal systems by 2000. (See Figure 12-2). Now that the transition period for developing countries has expired, a review of their laws and ordinances is being conducted from 2000 (see Figure 12-3). The legislation review for new members will be conducted in order after accession. The reviews have generally proceeded smoothly, but recently there have been reports from some developing country members that implementation to domestic legal systems have not been completed.

### Figure 12-2

#### Reviewed Countries

Australia, Austria, Belgium, Bulgaria, Canada, Czech Republic, Denmark, Ecuador, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Mongolia, Netherlands, New Zealand, Norway, Panama, Poland, Portugal, Romania, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, United Kingdom, United States, Kyrgyz, Latvia. (Total: 38 Countries)

Figure 12-3

Schedule for reviews of domestic laws and ordinances (2000-2001)

<i>June 2000</i>	Belize, Cyprus, El Salvador, Hong Kong, Indonesia, Israel, Korea, Macao, Malta, Mexico, Poland*, Singapore, Trinidad, and Tobago.
<i>November 2000</i>	Chile, Columbia, Estonia, Guatemala, Kuwait, Paraguay, Peru, Turkey, United Arab Emirates.
<i>April 2001</i>	Bolivia, Brazil, Cameroon, Congo, Grenada, Guyana, Jordan, Namibia, Papua New Guinea, Saint Lucia, Surinam.
<i>June 2001</i>	Albania, Antigua and Barbados, Argentina, Bahrain, Botswana, Costa Rica, Côte D'ivoire, Croatia, Dominica, Dominican Republic, Egypt, Fiji, Georgia, Ghana, Honduras, Jamaica, Kenya, Mauritius, Morocco, Nicaragua, Oman, Philippines, Saint Kitts and Nevis, United Arab Emirates.
<i>November 2001</i>	Barbados, Brunei, Cuba, Gabon, India, Malaysia, Nigeria, Pakistan, Qatar, Saint Vincent, Grenadine, Senegal, Sri Lanka, Swaziland, Thailand, Tunisia, Uruguay, Zimbabwe.

\* For Poland, only the unfinished portion from the last review.

*Consideration of Reviews of the TRIPS Agreement*

Below is an overview of the review of the TRIPS Agreement currently taking place in the TRIPS Council.

The Council for TRIPS began to discuss the issue of geographical indications in November 1996, and is continuing discussions on the matters the estab-

lishment of a multilateral system for the notification and registration of geographical indications for wines and spirits (related to Article 24.2), the review of the implementation of the provisions of the geographical indications in each members (related to Article 24.2) and the granting of additional protection of geographical indications for products other than wines and spirits.

Fact-finding activities are in progress as a first step of review regarding the exemption provision on patentability of plants and animals under the Article 27.3(b).

The Council began to examine the scope and modalities for non-violation complaints (related to Article 64) that had been postponed application to the settlement of disputes under the TRIPS Agreement until the end of 1999. Also, the extension of the moratorium for the application of non-violation claims had been discussed at the third Ministerial Conference in Seattle November, 1999. No concrete results have been obtained so far, and the discussion is continuing under the Council.

### *Overview of TRIPS Dispute-Settlement*

Since the TRIPS Agreement took effect on 1 January 1995, 23 matters have been taken into consultation under the WTO dispute settlement procedures, and eight panels have been established.

Until 2000, most of the cases dealt with issues between developed country members after the end of the transitional period, and issues between developed and developing country members regarding the national treatment and most-favored-nation obligations incurred by all members at the time the Agreement took effect. Since January 2000, there may have been an increase in cases brought by developed country members against developing country members because the transitional period for developing country members has concluded.

It is necessary for Japan to continue its efforts to monitor the status of legal systems in the member reviews and also to watch the disputes between members. It may find it necessary to take responses where appropriate.

Box-1

Negotiations for the New WIPO Rules

To avoid the trade friction caused by differences among national systems and to ensure the further development of world trade, countries should strive to harmonize intellectual property regimes even in areas not covered by the TRIPS Agreement. The development of innovative information & communication technology will necessarily give rise to new issues in protecting intellectual property, and the creation of rules to protect intellectual property in these areas will be vital. From such a perspective, the efforts to form new rules at WIPO are shown below, and are mutually complementary to the TRIPS discussions.

*Patents*

A “Patent Law Treaty” (PLT) that would provide internationally harmonized patent procedures was adopted in June 2000. Discussions regarding the harmonization of patent law, which had been frozen since 1994, were resumed by the Standing Committee on Patent Law (SCP).

*Trademarks*

“Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks” and “Joint Recommendation Concerning Trademark Licenses” were adopted by the Assembly of the Paris Union and the General Assembly of WIPO September 1999 and September 2000 respectively. They represent the standards for protection of well-known marks against domain names, and for simplifying trademark licensing procedures. They also provide for international harmonization of these regimes. While they do not have the same binding force as a treaty, the advisories are seen as a new form of international rulemaking that provides countries with guidelines to be considered in the formulation of domestic systems.

In April 1999, the “Final Report on Internet Domain Name Processes” was published, providing a basis for the formulation of dispute settlement rules regarding trademark infringements in the area of Internet domain names. At the behest of Australia, studies of a “second Internet domain name process” began in July 2000 to cover non-trademark names, including personal names, trade names of international pharmaceuticals (INNs), inter-governmental institution names, geographical indications, and business names and their relationship to domain

names. The final report is expected in July 2001.

### *Copyright and Related Rights*

Since the Berne Convention was last amended over twenty years ago, the “WIPO Copyright Treaty” and “WIPO Performances and Phonograms Treaty” were adopted in 1996 for 1) new minimum standards of copyright; 2) new minimum standards of the rights of performers (singers, actors, etc.) and producers of recordings. Each treaty will take effect three months after at least 30 countries ratify the treaty.

As to the rights of performers of audio-visual performances, discussions have continued and a diplomatic conference was held in December 2000. However, there has been conflict over some of the proposed provisions, and a new treaty has not been adopted. As a result, the meeting recommended the WIPO General Assembly on 2001 to consider convening another diplomatic meeting to seek solutions to the remaining issues.

### *Other Issues*

In addition to the formulation of new rules for various forms of intellectual property described above, developing country Members have in recent years taken the lead in seeking examination of intellectual property issues related to genetic resources (access to genetic resources and distribution of the benefits therefrom), traditional knowledge, and folklore. General discussions are scheduled at the inter-governmental committee to be established by WIPO in 2001.

## ECONOMIC IMPLICATIONS

Intellectual property rights systems provide the institutional framework to promote two economic goals. First, patent and copyright laws grant certain exclusive (monopolistic) rights to the developers and creators of intellectual property, encouraging intellectual creative activity and promoting the effective use of resources in the development of new technologies and the discovery of new knowledge, thereby enhancing the intellectual infrastructure for economic development. Second, marks and indications of goods and services, such as trademarks and geographical indications, enable businesses to maintain public trust and to promote fair competition.

On the other hand, because intellectual property rights allow a certain

amount of monopolistic use of new technology and knowledge, these systems restrain use by both third parties and competition, and therefore reduce the social benefits to consumers by limiting the industrial application of technology and knowledge. To balance these competing interests, intellectual property rights systems need to be instituted carefully so as not to prevent fair and free competition.

### *The Impact of Introducing a New IPR System*

When introducing a new intellectual property rights system, international redistribution of income results from new limits on the use of existing intellectual property. This redistribution has an asymmetrical impact on the economic welfare of individual countries. Developing countries fear that they will bear the burden of new IPR systems because there would be an international redistribution of income from the developing countries that use intellectual property created by the developed countries to the developed countries. This concern has made negotiating the introduction of new IPR systems more difficult.

### *The Trade Distortionary Effects of Inadequate and Inappropriate Protection of IPR*

As the importance of intellectual property within international economic activities has grown, so have the trade distortionary effects of inadequate or inappropriate protection of IPR.

First, inadequate protection of intellectual property has a direct and adverse impact on the normal economic activities of the property holder. Inadequate protection of IPR leads to trademark counterfeiting, copyright piracy of pictures, music, and other works, design imitation, and the manufacture and distribution of products that infringe on IPR, thereby reducing the incentives and allocations of resources for new product development. Furthermore, regulations that require unreasonable time limits on technology licensing contracts entered into with foreign companies, prohibitions on confidentiality obligations after the completion of the term of a contract, and other measures that prevent property owners from exercising their legitimate property rights impede and impair investment and technology transfers from other countries. Such requirements reduce domestic technological development and ultimately cause a detrimental effect on the countries involved and the world economy as a whole.

Second, if each country's intellectual property rights system causes excessive intellectual property protection, or discriminates against foreign interests, or varies widely from internationally generally agreed-upon rules and procedures, time and money must be spent in the acquisition and enforcement of rights, which in turn distorts free trade.

### *Considerations in New Rulemaking*

There is an underlying acknowledgement that appropriate protection for intellectual property rights is vital to free trade and sound economic development. In this light, work is being done to create a more appropriate international framework. We note, however, that in establishing this system, consideration will need to be given to assure fair and free competitive conditions, to address the impact of the income redistribution from the introduction of the new system, and to secure improvements in economic welfare that will promote new intellectual creation and business.

## PROBLEMS OF TRADE POLICIES AND MEASURES IN INDIVIDUAL COUNTRIES

International standards for the protection of intellectual property have taken a great leap forward with the conclusion of the Uruguay Round. As mentioned above, the TRIPS Agreement provides transitional arrangements for developing countries and least-developed countries from applying the Agreement—with the exception of national treatment and most-favoured-nation treatment—for a certain number of years. Nevertheless, we recommend that measures inconsistent with the international standards be eliminated as soon as possible.

To implement the obligation of the TRIPS Agreement in developing countries, as Article 67 of the TRIPS provides, it is necessary for developed countries to provide technical and financial cooperation to developing countries. These activities will benefit both developed countries and developing countries in the short term, and will have increasing benefits for developing countries in the long term.

It will also be important to monitor the progress made by WTO Members to

make their legal systems consistent with the TRIPS Agreement and to point out, as appropriate, any aspects that may not be in conformity. The Council for TRIPS is going to conduct reviews of each Member's implementation of obligations of the TRIPS Agreement, especially in developing countries, which were obligated to implement the agreement in January 2000. As such, it is important to point out any measures that are inconsistent with the TRIPS Agreement. In addition, if countries fail to correct aspects of their systems that are inconsistent with the TRIPS Agreement, Japan should seek to address problems through the WTO dispute-settlement procedures.

Furthermore, reviews of the TRIPS Agreement and negotiations at the WIPO should seek to create better and more objective rules for the protection of intellectual property.

## 1. UNITED STATES

### *Patent System*

The United States has a unique patent system, including the first-to-invent principle, which negatively affects the stability of patent rights. In this section, however, we take up the issue of the Hilmer doctrine, which illustrates a problem in the US patent system in the context of the TRIPS Agreement.

When applications (hereinafter "corresponding application") are filed in Japan or Europe claiming priority rights based on patent applications (hereinafter "first application") filed in other countries, it is possible to prevent the granting of patent rights to subsequent applications filed in Japan or Europe after the date of the first application by using the whole content of the first application (exclusion of subsequent applications). However, the examination practice on such issue in the United States is different. In the United States, if US corresponding Application A claims priority rights based on an application first filed in another country (for example, Japan application), the exclusion of subsequent applications under Section 102(e) (see Note 1 below) of the US Patent Law does not take effect until the corresponding US application A date rather than the first application date. This is a legal doctrine established by precedent, and it is also part of the examination procedures employed by the US patent Office.

If Subsequent Application B, which has the same claim as Application A, is filed in the United States between the date of first Application A and that of

corresponding Application A, Subsequent Application B can be excluded by the claims of corresponding Application A provided that it is proved that the invention date on Application A precedes the invention date on Subsequent Application B. (Section 102(g) of the US Patent Law—see Note 2 below). In the past, it was impossible in practical terms to obtain verification of an invention date prior to the first application A date (in other words, the date of first country application was considered the invention date), but amendments to the US Patent Law in 1994, made in conjunction with WTO membership, make it possible to demonstrate an invention day earlier than the first-country application date in order to demonstrate prior invention in WTO members other than United States (Section 104).

However, there is no guarantee in the United States to exclude subsequent applications as would be enjoyed in Japan or Europe. Application A would not be able to exclude subject matters disclosed in the claims of Subsequent Application B, which filed between first Application A date and US corresponding application date, for areas other than claims of Application A.

A key point in the discussion of the relationship between the Hilmer doctrine and TRIPS Agreement regards the wording in Article 4:B of the Paris Convention, which applies *mutatis mutandis* to Article 2 of the TRIPS Agreement, which says that acts between a first application and a corresponding application do not give rise to any third-party right or any right of personal possession. The dispute is over whether this means that the exclusion of subsequent applications takes effect on the first application date even for those portions of the descriptions not in the first application claims.

Japan should take every opportunity to seek a correction of the Hilmer doctrine, considering the vast impact for Japanese industry and the situation of several international negotiations.

#### Notes:

1. Section 102(e)(2) of the US Patent Law grants the right to receive patents to all except “the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or on an international application by another who has fulfilled the requirements of paragraphs (1),(2) and (4) of section 371(c) of this title before the inven-

tion thereof by the applicant for patent.”

2. Section 102(g)(1) of the US Patent Law grants the right to receive patents to all except “before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining the priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.”

### Box-2

#### The Unique US Patent System

Among developed countries of the world, the United States has a unique patent system: For instance, the United States still maintains the “first-to-invent” system. It would not be appropriate to condemn the United States only because of having such a unique patent system. Applicants in other nations may face unreasonably high costs using the US patent system, and such situations would be obstructive to the liberalization of trade and investment.

In the paragraphs that follow, we discuss those areas of the US patent system that Japan finds particularly problematic. Japan has sought improvements in several of these areas in the Working Group on Intellectual Property Rights of the US-Japan Framework Talks that began in October 1993, and obtained a Japan-US agreement on improvements in 1994. However, this agreement has yet to be fully implemented, so we must continue to seek full implementation of the agreement from the United States. In July 1999, Japan submitted a proposal to the WTO General Council that the next round of comprehensive trade negotiations include a review of the TRIPS Agreement focusing on the “first to invent” doctrine and early disclosure systems. We also seek improvements in administration regarding the unity of inventions.

#### *First-to-Invent Principle*

The United States is the only country in the world to adopt the first-to-invent principle. While this principle is not in violation of the TRIPS Agreement, the first-to-invent principle involves the following problems: (a) the validity of a patent is neither predictable nor secure because the status of a current patent

holder may be negated afterwards by the claim of the first inventor; (b) a lengthy period of time and an enormous amount of money are often required in the process of determining who the first inventor is; and, (c) since there is no system for a third party to start proceedings on determining the first inventor, such as an interference, if multiple applicants created similar inventions independently and obtained patents for them respectively, a third party would be required to pay royalties to all of such inventors in an overlapped manner, which would be unfair for the third party.

The United States has come to be aware of the problems with the “first-to-invent” principle. To promote the international harmonization of patent laws, the United States should change to a “first-to-file” system.

#### *Limited Early Publication System*

Amendments to the Patent Law on 29 November 1999 brought a limited early publication system to the United States. However, this does not fully fulfil the Japan-US agreement on the early publication system of in principle all patent applications, in that it allows the applicant to apply for nondisclosure of US applications not filed for in foreign countries and notations in US applications not included in foreign country applications.

In such situations, well-intentioned third parties may make overlapped investments in R&D or commercialization of the same inventions as those claimed in any unpublished applications, which may potentially cause serious unforeseen difficulties for one’s business.

#### *Extension of Patent Term*

The Uruguay Round Implementation Legislation passed in December 1994 amends the patent term to 20 years from the date of first application, which corrects a part of the US “submarine patent” problem that enables patents on obsolete technology to continue for 17 years after the date of patent issuing. However, this provision is only applied to applications filed after June 8, 1995, the date it took effect. Patents filed prior to that date have the potential to continue to exist as “submarines”.

The amendments to the Patent Law that were passed on 29 November 1999 eliminate the ceiling on extension to the patent term based on delays in review and interference procedures, and allow the patent term to be extended because of procedure delays for which the US Patent and Trademark Office is found re-

sponsible. This has the potential to create a new submarine patent problem, because applications filed only in the US and not disclosed could face delays in granting, for which the patent term is indefinitely extended according to the term of the delay, all without disclosure.

#### *Re-examination system*

An agreement was reached on the re-examination system that would expand the reasons to seek a re-examination and expand the opportunities for third-party participation in the re-examination procedures. The amendments to the Patent Law on 29 November 1999 introduced a re-examination system for parties involved in the application in addition to the re-examination system for assessment purposes and expanded the opportunities for third-party claimants to file opinions on the re-examination.

However, there are still problems with the US re-examination system: 1) it does not accept inadequate specification of claims as a reason to seek re-examination, and 2) it does not in fact guarantee third-parties the opportunity to dispute the validity of patent rights because a decision in the re-examination that a patent is valid eliminates the right of a third party to again seek nullification of the patent on the grounds that the third party seeking be re-examination could have made its claims in subsequent suits during the re-examination proceedings.

#### *Trademarks Systems (DS176; US Omnibus Act 211)*

Section 211 of the Omnibus Act of 1998 states that the United States will not recognize the renewal or exercise of rights for trademarks related to assets confiscated by the government of Cuba. This provision appears problematic in terms of the national treatment and most-favoured-nation obligations of the TRIPS Agreement. Such unilateral measures by the United States are fundamentally inconsistent with the multilateral trading system and WTO principles. They distort trade and should be immediately improved. (See Chapter 14, unilateral measures.)

The EU requested bilateral consultations regarding the matter in July 1999, and did not come to any satisfactory solution with the United States. The EU requested the establishment of a panel in July 2000. It was established in September 2000.

*Copyright Systems (DS160; US Copyright Act)*

Section 110(5) of the US Copyright Act allows some exceptions for the public transmission rights of the copyright holder. In subparagraph (a), it grants exceptions for a single reception device of a commonly used variety (for example, a television, radio, etc.); in subparagraph (b), for a store with small floor space or in a store using only a small television or speaker.

The EU made two points against this: 1) Article 9:1 of the TRIPs Agreement is based on Articles 1-12 of the Berne Convention, and Article 11 of the Berne Convention grants exclusive rights to the copyright holder to agree to public transmission of music and other copyrighted works. The Berne Convention customarily allows limitations on copyrights within the scope of “minor reservations” as exceptions to this, but the US copyright law provisions do not match with any other exceptions to the Berne Convention, including minor reservations. 2) Article 13 of the TRIPs Agreement allows members to limit the exclusive rights of the copyright holder in “certain special cases which do not conflict with normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.” The US provisions do not agree with this exception and violate Articles 9 and 13 of the TRIPs Agreement. The EU requested bilateral consultations at the WTO in January 1999, but a solution was not found, leading to a request to establish a panel in April and the establishment of the panel in May (Japan, Australia, Canada, and Switzerland are participating as third parties).

The US argues that the provisions of Section 110 of the Copyright Act attempt to balance protection and use of copyrighted works and are “minor reservations” as used in the Berne Convention. It also argues that they constitute exceptions allowed under Article 13 of the TRIPs Agreement and are therefore in conformance with these agreements.

On 15 June 2000, the panel ruled on the first point that Section 110(5)(a) of the Copyright Act constituted a minor reservation under the Berne Convention and a legitimate exception under Article 13 of the TRIPs Agreement and was therefore consistent with the agreements, but on the second point that subparagraph (b) did not constitute a legitimate exception under the TRIPs Agreement and the US had violated its TRIPs Agreement obligations. The panel issued a ruling to bring the US measures into conformity with the TRIPs Agreement.

On 27 July 2000, the United States and the EU announced their intention to accept the panel verdict, but disagreed on a “reasonable period” to implement

the ruling. On 22 November, they agreed to send the case to arbitration, and the arbitrator ruled on 15 January 2001 that the US had 12 months from the panel report to implement the recommendation; in other words, until 27 July 2001. The United States accepted the panel report's finding that its copyright law was not in conformance with the TRIPs Agreement, and it behooves the US to improve the system as soon as possible. Japan should monitor US efforts in this regard.

### *Section 337 of the Tariff Act of 1930*

Section 337 of the Tariff Act of 1930 targets unfair import practices by excluding from the United States imports that infringe upon valid US-registered intellectual property rights. The Omnibus Trade and Competitiveness Act of 1988 removed the requirement of injury in cases involving the infringement of patents, trademarks, copyrights, and layout-designs of integrated circuits. This removal of the injury requirement in 1988 simplified the burden of proving a violation of Section 337, and thus made Section 337 an easily accessible remedy for US domestic industries (See Figure 12-4).

Under certain circumstances, Article XX(d) of the GATT establishes an exception permitting the exclusion of imports that infringe upon patents and other intellectual property rights. In November 1989, however, the GATT Council adopted a panel report that concluded Section 337 procedures violated the national treatment provisions of Article III:4 of the GATT and could not be justified by Article XX (d). Despite such a clear and definitive statement of inconsistency with the GATT, the United States did not immediately abide by the panel's decision. With respect to the relatively short and fixed time limits for the completion of proceedings under Section 337, which were found to be inconsistent with GATT, the TRIPs Agreement expressly prohibits the setting of unreasonable time limits on procedures for the enforcement of intellectual property rights.

In its Uruguay Round implementing legislation, the United States significantly amended Section 337 so that it more fully complies with the GATT Council's recommendations. The deadline for final relief has been eliminated, though the ITC still establishes a "target date" for final determination in each investigation within 45 days of the initiation of a investigation, depending on how it is administered, could result in discriminatory treatment of imports. On 14 January 2000 the EU requested bilateral consultations regarding this provision.

Japan should continuously monitor developments closely.

Figure 12-4

Number of Investigations Initiated under Section 337

Year	Total Number of Cases	Cases Involv- ing Japan
1990	13	0
1991	12	3
1992	13	2
1993	15	3
1994	6	1
1995	11	2
1996	12	3
1997	13	2
1998	12	3

## 2. ASIAN COUNTRIES

Asian countries increasingly have been establishing adequate laws, regulations, systems, and institutions to protect intellectual property rights. Since the establishment of the WTO, Asian countries have been amending their national intellectual property legislation to conform to the TRIPS Agreement. We appreciate the efforts of some Asian countries to conform to the TRIPS Agreement in advance of the end of the transitional period in 2000. As the reviews of the implementation toward developing countries are ongoing under the TRIPS Council, we will need to watch both the legal frameworks and the administrations to ensure proper fulfilment of agreement obligations. When inconsistently circumstances exist, including failure to adhere to the Agreement, it is necessary for Japan to consider the use of WTO dispute settlement procedures.

## COUNTERFEIT AND IMITATION GOODS IN ASIAN COUNTRIES

### *Availability of Enforcement*

The largest intellectual property rights problem in Asian countries, and one that besets virtually every country, is the huge number of cases of infringement in the form of rampant production and distribution of counterfeit trademark goods, design limitation goods and pirated copyright goods (Figure 12-6). This problem is exacerbated by the inability of many Asian governments to effectively enforce rights and eliminate infringements.

The introduction of substantive legal provisions and the establishment of a regulatory system by itself will not guarantee the sufficient protection of intellectual property rights. For rights to be sufficiently protected, the granting and registration of rights must be handled efficiently by the relevant authorities and agencies. Moreover, effective and expeditious remedies against infringement of intellectual property rights must be available to prevent and deter infringements. Adequate remedies include court enforced injunctions for infringement, compensation for damages, orders to destroy infringing products, provisional measures to seize infringing products and secure evidence, border measures by customs authorities, and the availability of criminal enforcement and sanctions.

In the TRIPS Agreement, Articles 41 through 61 provide for these enforcement procedures. Specifically, Article 41 requires Members to ensure that enforcement procedures are available to permit effective and expeditious action against infringement of intellectual property rights. A lack of effective and expeditious enforcement measures may constitute a violation of obligations under the Agreement. Japan must watch for legislation of Members, especially developing country Members, since their moratorium expired, from the year 2000 to ensure effective and expeditious enforcement procedures. Moreover, when an inconsistent measure is identified, Japan should consider resolution through WTO dispute settlement mechanism.

Some Asian countries recognize the need to strengthen their enforcement against pirated goods, and their authorities are actively cracking down on these products. Japan praises these efforts and looks forward to further strengthening of them in the future.

**Figure 12-5**  
**Number of IPR Infringement of Japanese Products in Asian Countries**

	The Number of Infringements of Japanese Products (1997) *			
	Number of Cases with Country as the Producing Country		Number of Cases with Country as the Distributing Country	
	1999	2000	1999	2000
Korea	68	61	55	63
Hong Kong	22	18	44	56
Indonesia	11	16	20	37
Thailand	13	16	24	38
Malaysia	8	13	21	32
Singapore	4	8	30	37
Philippines	2	7	16	28
India	4	6	12	16
China	121	147	96	118
Taiwan	92	77	73	78
Vietnam	6	7	11	18
Asia	357	383	417	536
World	446	430	656	873

\* Source: Research by the Japan Institute of Invention and Innovation (survey of 5,000 manufacturers)

### *Actions Concerning Counterfeit Goods and Imitations*

With respect to the issues of counterfeit goods and imitation in Asian countries, we urge that enforcement procedures be brought into conformity with international standards. Adjustments to the substantive legal and other systems of countries will not be enough.

First, it is necessary to secure the necessary personnel to operate an effective intellectual property protection regime, and efforts must be made to train personnel in the field of intellectual property inside and outside of the government so as to increase awareness of the relevant problems. For the granting, registration, and law enforcement agencies to operate efficiently and appropriately, it is necessary to develop computerized systems. To assist in achieving these goals, Japan and other developed countries should help developing countries make the necessary institutional improvements and provide technical as-

sistance through expanded training programmes.

Moreover, it is necessary to urge governments to further reinforce registration by administrative authorities, and to educate nationals on the importance and significance of intellectual property protection.

To this end, Japan has greatly enhanced technical assistance to Asian countries, and will continue to promote technical cooperation in the future.

### *Licensing Restrictions*

Asian countries often regulate international licensing contracts between foreign and domestic companies under special legislation governing technology transfer or under intellectual property rights laws. These licensing regulations often restrict or ban specific contractual clauses with the effect of limiting the ability of foreign licensors to use their intellectual property rights or of placing foreign licensors in extremely disadvantageous contractual positions. The TRIPS Agreement allows appropriate measures to be taken to prevent detrimental influence on and practices concerning international transfers of technology (Article 8), and to prevent or restrict anti-competitive practices in licensing contracts (Article 40). The TRIPS Agreement also contains a safeguard provision that attempts to prevent abuse of licensing restrictions by requiring that they not violate other provisions within the TRIPS Agreement. When considered in this light, many of the licensing restrictions imposed by Asian countries would seem to be contrary to the TRIPS Agreement.

Examples of restrictions that are contrary to the TRIPS Agreement are as follows. Examples of restrictions that are contrary to the TRIPS Agreement are as limitations on the terms of licensing contracts or the periods for which royalties can be collected. The TRIPS Agreement gives the owners of patents the right to assign licensing contracts of their patent rights (Article 28.2), and obligates countries to protect patent rights for 20 years (Article 33). Accordingly, the government regulations that restrict rights under international licensing contracts to anything shorter than its valid right term (and no exception for any extension) seem to be contrary to the TRIPS Agreement.

Other restrictions that may not be contrary to the TRIPS Agreement include:

- (1) Obligations on the licensor of licensed technology not to infringe third parties rights or to guarantee that certain levels of technology will be met.
- (2) Prohibitions regarding contracts clauses restricting exports. Both of these impose extremely disadvantageous conditions on the licensor of technology and may discourage licensing contracts.

The above licensing restriction issues may be inconsistent with the Agreement after January 2000, because their transitional period has passed. Therefore, licensing restrictions contrary to the TRIPS Agreement should be amended and brought into conformity with the Agreement. Other limitations that discourage or impede licensing and thereby, cause barriers to international technology transfers should also be eliminated, and Japan should continuously monitor the regulation of each country. (see also Chapter 16 regarding China)

### 3. EUROPEAN UNION AND OTHERS

#### *EU (Greece – Copyright and Other Protection)*

The EU is engaged in bilateral consultations with the United State and other members regarding patent protection in Portugal, copyright protection in Greece, enforcement of rights in Denmark, and protection of trademarks and geographical indications for EU agricultural products and foods. Japan will monitor the progress of these consultations and the improvement of relevant systems in the EU and its member countries.

Because many Central and Eastern European countries will be joining the EU at some point in the future, Japan will need to continue to monitor both the legal systems and the administrative systems of these countries in the intellectual property rights area.

#### *Canada (DS114; Patent Protection of Pharmaceutical Products)*

Under the Canadian Patent Act, Article 55 bis provided that (1) a person who is not the patent possessor may make, construct, use, or sell a patented invention without permission for uses reasonably related to the development and submission of information under any law of Canada, and (2) a person who is not

the patent possessor may make, construct, or use a patented invention, during the applicable period provided for by the regulations, for the manufacture and storage of articles intended for sale after the date on which the term of the patent expires.

The EU pointed out these provisions are not consistent with the TRIPS Agreement: (1) different treatment between inventions on any technological field violates the obligation under Article 27.1 of the TRIPS Agreement; (2) allowance of using the patented invention to obtain marketing approval of a copy of the patented medicines before the expiration of the patent violates the obligation under Article 28.1 of the TRIPS Agreement; and (3) making and stockpiling patented medicines for sale after expiry for the period up to six months before patent expiry also violates the obligation under Article 33 of the TRIPS Agreement. In December 1997, the European Union requested consultations with Canada, but failed to achieve any satisfactory solution. In November 1998, the EU requested a panel, which was established in February 1999 (Japan, the United States, Switzerland, India, and others, for a total of 11 members, participated as third parties).

Canada argued that Article 55 of its Patent Law balanced the perspectives of welfare policy, which seeks to distribute pharmaceuticals as quickly and as cheaply as possible, against the perspectives of industrial policy, which seeks to protect the rights of patent holders. Canada says that the measure is a legitimate exception allowed under Article 30 of the TRIPS Agreement and is therefore in conformance with the agreement.

The panel submitted a report on 17 March 2000 that found: 1) Article 55:(1) of the Patent Law is justified under the purposes and wording of Article 30 of the Agreement, but 2) Article 55:(2) is not justified and Canada has therefore failed to fulfil its obligations under the TRIPS Agreement. The panel issued a ruling to bring its measures in conformance with the TRIPS Agreement.

On 25 April, Canada and the EU announced that they would accept the panel ruling, but they disagreed on what constituted a “reasonable period” for implementation of the recommendation. On 20 June, they referred the case to arbitration, and on 18 August, the arbitrator ruled that Canada had six months from adoption of the panel report to implement the recommendation; in other words, until 7 October 2000. Japan praises Canada for taking steps to bring its domestic measures into conformance with the agreement on 5 August 2000, in advance of the deadline set by the arbitrator’s award.